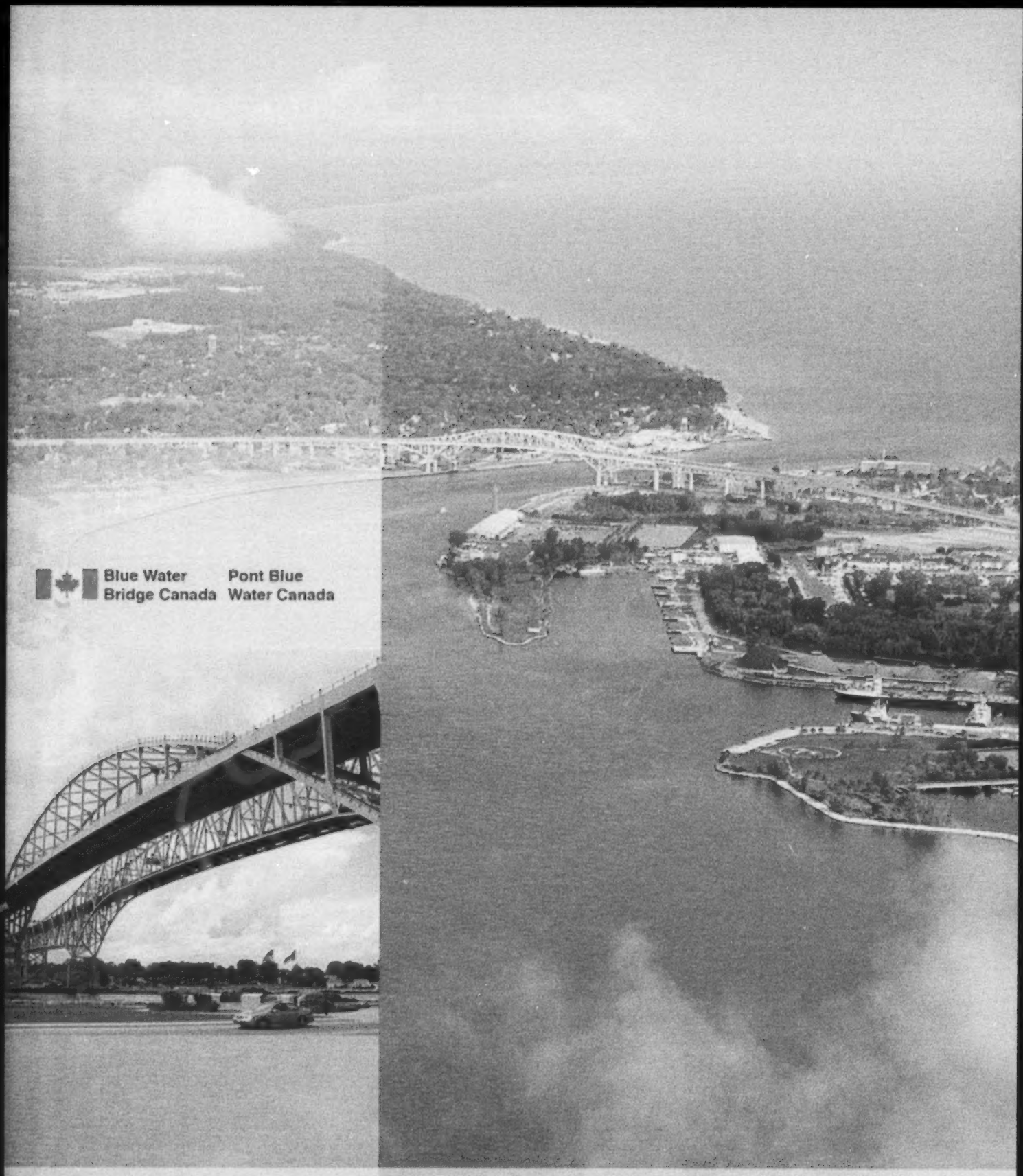

Blue Water Bridge Canada

Pont Blue Water Canada

Annual Report
2013 - 2014

Blue Water Bridge Canada
2013-2014 Annual Report

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Blue Water Bridge Canada (BWBC), a non-appropriated federal Crown corporation, owns and operates the Canadian side of the Blue Water Bridge, which extends across the St. Clair River between Point Edward/ Sarnia, ON, CAN and Port Huron, MI, U.S.A. Operating since 1938 and twinned in 1997, the bridge is among the most preferred crossings for commercial and passenger vehicles travelling between Canada and the United States. The U.S. side of the bridge is owned and operated by the Michigan Department of Transportation (MDOT).

Chairperson's Message

It should surprise no one that a major international border crossing works most efficiently in the hands of a group of individuals that is dedicated to teamwork.

As a regular traveller of the Blue Water Bridge for years, I had glimpses of how the members of the team managing the Canadian side of the crossing worked together. From the coordinated flow of summer vacation vehicles to the constant movement of snowplows over the twinned bridges through the harsh winter, I thought I was familiar with that reliable effort to make every traveller's crossing safe, efficient and enjoyable.

But, it wasn't until I had the honour of serving on Blue Water Bridge Canada's Board of Directors that I learned firsthand about the full extent to which our 64 employees serve their customers.

The primary duties of our teams might include toll collection, assets maintenance, janitorial services, currency exchange and business management. However, over the course of any given day, our employees also become traffic controllers, interpreters, tourist guides, painters and emergency responders, among a myriad of other necessary functions, where assistance to a distressed or needy traveller is warranted.

On numerous occasions, I've seen our employees quickly assess a developing situation and offer assistance directly, or call in a suitably qualified co-worker or outside service provider to put the right solution firmly in place. It is understandable why we are frequently referred to as "*the bridge that works.*"

Having seen our employees in action on numerous occasions throughout my terms of office, I take great pride in extending my appreciation to them for a job well done. I have also been pleased to serve with a highly dedicated Board, comprised of Larry Kinley and Gary Atkinson. I extend my appreciation to both directors, who have repeatedly gone beyond what might normally be expected of volunteer members. Through their dedication, the best interests of our bridge organization, our Canadian government partner and the public, both local and nationwide, have been well served.

In recent years, we at Blue Water Bridge Canada have faced and successfully overcome a number of major challenges. We have assessed the need for, and implemented a large-scale re-organization, all with the intent of flattening the organization and centring its focus on the cost-efficient management of the bridge. Subsequently, we encouraged and supported efforts to have our employee ranks filled with a mix of professionals, who possessed the right mix of skill and experience.

Additionally, we have helped align the necessary resources and technology and promoted a heighten level of fiscal constraint that resulted in improved operational efficiency and increased customer service.

Of its many current interests, BWBC is working on two very different yet equally important initiatives that will affect the future of our ability to serve our international travellers: the automation of our electronic tolling system and the amalgamation of our Crown corporation with another owner of federal international bridges. When fully functional in late 2015, our new automated tolling system will offer our customers an expanded number of self-directed payment options, while also improving the efficiency of how we operate it. Following a federal government initiative, we expect to amalgamate with the Federal Bridge Corporation Limited to create the new Federal Bridge Corporation Limited. The proposed integration of operations is intended to offer a concentrated focus on the management of the Canadian government's international land border crossings. As negotiations continue, the Board of Directors remains committed to performing its fiduciary responsibilities, so that a final amalgamation agreement, like our proud history of operations, would reflect the best interests of the Blue Water Bridge and those it serves.

Marcel Beaubien

Board of Directors

Marcel Beaubien, of Petrolia, Ontario, is Chairperson of the Board of Directors of Blue Water Bridge Canada and is current serving a three-year term. Mr. Beaubien was a member of the provincial parliament of Ontario for the Lambton-Kent-Middlesex Riding from 1995 to 2003. He served as parliamentary assistant to the minister of Finance and to the minister of Agriculture, Food and Rural Affairs. During this time, he was also a member of various parliamentary committees. The former mayor of the Town of Petrolia and a county councillor for Lambton County, he was an active volunteer member of several boards and committees. He is a developer, builder and manager of small commercial complexes and an advisor for Canadians for Properly Built Homes, a Canadian not-for-profit, national consumer protection organization. He has been a member of Blue Water Bridge Canada's Board of Directors since June 2011.

Larry Kinley, of Port Lambton, Ontario, is serving his second term as Vice-chairperson of Blue Water Bridge Canada's Board of Directors and chair of its Audit Committee. He is serving a three-year term of the Board. Mr. Kinley, who was educated in Lacombe, Alberta, has over 35 years of experience in the geophysical contracting industry and has managed and directed operations in many locations in Canada and the United States. For 28 years, he was a partner in Cangeo Ltd., a geophysical contracting business, and before that gained 10 years experience at Teledyne Exploration Ltd. in Calgary. Mr. Kinley's background has included managing diverse teams on oil and gas exploration and development projects, as well as projects for public utilities, including Union Gas and Enbridge. He has worked with different levels of government, from local townships, counties and provinces to U.S. states' departments and regulatory branches for required permits and access permissions. Mr. Kinley has also contributed to research projects at the universities of Calgary and Winnipeg.

Gary Atkinson, of Wyoming, Ontario, is the newest Board of Directors appointee to Blue Water Bridge Canada, serving a four-year term. Mr. Atkinson has 35 years of experience in the petro-chemical industry. He began his career at Imperial Oil's Sarnia Refinery, before joining Shell Canada in 1972. Mr. Atkinson became a senior operator at Shell's Corunna refinery hydrogen complex near Sarnia, where he worked until 2005. His responsibilities ranged from specialized operations to day-to-day maintenance and training. He was committed to achieving a safe work environment, contributing as a member of Shell Canada's Safety Promotion Team from 1984-2005, and as its chairman from 1993-2005. Among the many community boards Mr. Atkinson has served on, he is past president and director of the Plympton & Wyoming Agricultural Society, a member of the board for St. Francis Advocates, and member of the Sarnia Lambton Chamber of Commerce's Government Affairs Committee. In 2000, he was awarded the Queen's Golden Jubilee Medal.

Management Team

John R. Elliott, Chief Operating Officer

Matthew Earley, Controller

Joe Lopetrone, Manager, Operations

Mary Sue Knowles, Manager, Currency Exchange

Joe Dedecker, Manager, Capital Projects

Deric Mathews, Manager, Technologies

Monica Henderson, Manager, Human Resources

Mary Ann Brown, Executive Assistant/Corporate Secretary

Mandate, Governance & Accountability

MANDATE

BWBC has the mandate to operate, maintain and repair the Canadian half of the Blue Water Bridge, twinned structures linking Point Edward/Sarnia, Ontario with Port Huron, Michigan. The original span of the bridge was constructed in 1938 and rehabilitated completely in 1998, while the second span was opened in 1997. Consistent with its mandate, BWBC's mission is to make its customers' gateway experience safe, efficient and enjoyable. The vision of the corporation is to be recognized by its customers as an essential part of their travel experience. To meet its mandate, BWBC works in close cooperation with its U.S. bridge co-owner, MDOT, to explore and develop more efficient, safe and cost-effective operating practices to benefit its international travellers.

LEGISLATION AND RESPONSIBILITIES

BWBC was established in 1964 by an act of Parliament, the *Blue Water Bridge Authority Act* (BWBAA). The act provides the basic framework for BWBC's governance and operations.

BWBC PORTFOLIO

In 2002, BWBC became a Schedule III, Part I, parent Crown corporation under federal legislation, the *Financial Administration Act* (FAA). As a Crown corporation, BWBC continues to manage the various aspects of its operations in support of its mandated objectives, remaining at arm's length from the federal government. Specifically, BWBC is responsible for planning and managing functions related to: strategic and development master planning; the setting and administration of corporate policy; finance and accounting; government reporting; stakeholder relations and communications; tolling; infrastructure, grounds and facility maintenance; site security; bridge traffic management, and; traveller assistance. The organization communicates with Transport Canada, through using proactive and scheduled/regulation-related reports, face-to-face exchanges and responses to requests for information.

With the twinned bridges rising as a dominant iconic structure within the surrounding region, the high-profile nature of BWBC's 24/265 operations necessitates that communications and transparency are maintained beyond its employee base, to include a variety of plaza tenants and other external stakeholders. Identifying and consistently communicating core messages and providing opportunities for input and feedback regarding its various plans and activities enables BWBC to reach common understandings with its stakeholders and to ensure the mutual benefit of all parties that hold an interest in the bridge.

BWBC is governed by a Board of Directors, with four members appointed by the Governor in Council. During 2013, there was no adjustment of the membership of the directors. The Board chair is appointed by the Governor in Council. As in the previous year, there were three directors in place, with the fourth appointment remaining vacant.

The relationship between BWBC and the Minister of Transport is the responsibility of the Board, with assistance from its executives and program managers. The corporation's strategic direction and related actions are set for BWBC within its legislated mandate by the Board, in consultation with management. Further direction and guidance are provided by government policies, approvals and letters of expectation from the Minister. The BWBC Board annually sets business goals for management, outlining expected actions and outcomes that are consistent with the organization's strategic direction and the government's priorities. Regular progress reports by, and discussions with management allow the Board to monitor and adjust its annual plan, as necessary.

PUBLIC ACCOUNTABILITY

As a Crown corporation, BWBC is subject to the accountabilities set out in the FAA, Part X. It is accountable to Parliament through the Minister for the conduct of its affairs. The Minister of Transport is accountable for the provision of broad policy direction and responses to questions raised in Parliament regarding BWBC activities.

BWBC BOARD

Responsibility

As described in the *Financial Administration Act* and *the Blue Water Bridge Authority Act*, the duties and responsibilities of the BWBC Board are to set corporate objectives and direction, ensure good governance, monitor and audit financial and operational performance, approve budgets and financial statements, approve policies and by-laws and ensure that risks are identified with mitigation measures put in place.

Independence

Directors of the Board are required to act honestly, diligently, carefully and in good faith, in accordance with the *Financial Administration Act*. They are briefed on and operate under the terms of corporate by-laws and policies, which have been created to prevent conflict of interest. Members are required to excuse themselves from decision making related to areas of potential conflict of interest. BWBC requires that directors and executive management annually review and

acknowledge their understandings of the principles expressed in the corporation's conflict of interest and code of conduct policies and to proactively identify any potential conflict of interest.

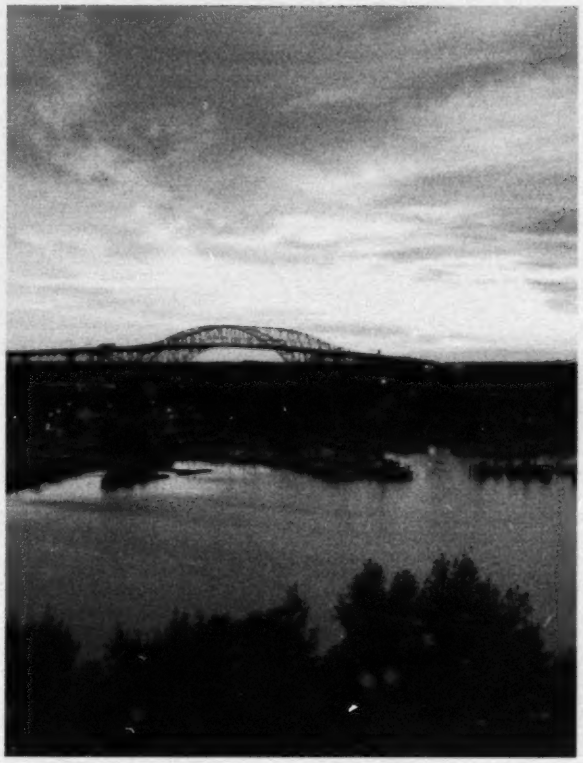
The Board's Audit Committee
In accordance with sound governance practices, the Board maintains an Audit Committee. Mandated by the *FAA*, Section 148, the role of the Audit Committee is to ensure that all significant financial measures and operational initiatives are reviewed in detail, with associated recommendations made to the Board. The committee is composed of the four directors, with the role of the chair filled by the Vice-chairperson of the Board.

Audit activities for a various, select BWBC activities are conducted by internal and external, independent professionals, as contracted regularly by the Board and appointed by the federal government, respectively. The internal audit function is performed by a reputable business management services firm, while the external audit role is conducted by the Office of the Auditor General of Canada.

HUMAN RESOURCES

BWBC currently has 50 full- and 14 part-time employees for a total workforce of 64. Knowledge and abilities required to efficiently and safely operate and maintain the bridge range from specialized expertise to general labour skills. The employee organization encompasses: Operations plaza attendants to maintain bridge traffic flow, collect tolls and coordinate BWBC's security program; Maintenance workers, to service the bridge infrastructure and facilities and ensure safe traveller passage; Janitorial staff, to ensure clean premises and manage waste recovery and disposal; Currency Exchange clerks, to operate a Canadian-U.S. currency exchange service for local area and travelling customers, and; administration personnel, to provide organizational leadership and support for short- and long-term plans and activities. BWBC is committed to ensuring the ongoing training of its employees to provide the highest level of service to meet its public safety and service obligations.

BWBC is party to a collective bargaining agreement involving members of the Public Service Alliance of Canada, Local 501, involving non-management and non-administrative personnel. The current collective agreement expires in November 2014.



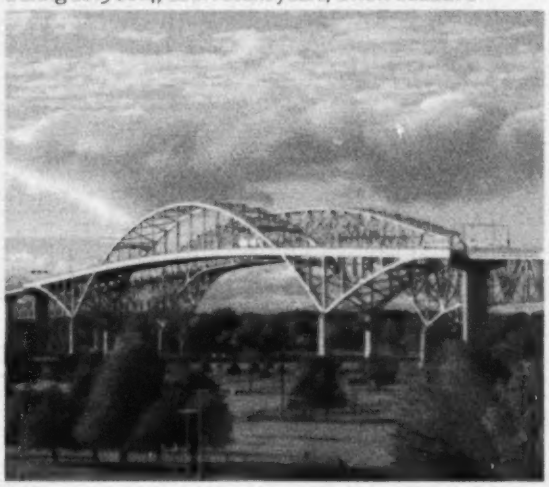
Management Discussion and Analysis
For the year ended August 31, 2014

FORWARD-LOOKING INFORMATION

The following discussion and analysis contains certain forward-looking information, which is based on a variety of assumptions and is subject to risks and uncertainties. Please refer to "Forward-looking Statements" (see Page 15) for further information about related risks and uncertainties and material factors and assumptions.

This report presents the financial and operating results of Blue Water Bridge Canada (BWBC) for the year ended August 31, 2014, and should be read in conjunction with the Audited Financial Statements of the BWBC.

During 2013-2014, as in recent years, a new initiative



continues to gain a stronger hold on major Canadian-United States land border crossings, like the Blue Water Bridge. The impetus is the *Beyond the Border* initiative, a partnership advancement by the Canadian and U.S. governments to identify and remedy border delays and red tape that bind and frustrate legitimate commercial trade and passenger vehicle travellers. For BWBC and its customer-centric mission, the initiative cuts directly and indirectly across a wide range of interests relating to such matters as the efficient flow of cross-border traffic, the potential of trusted traveller programs, the creative use of technologies and the optimization of plaza personnel and facilities. Consistent with the philosophy of *Beyond the Border*, the organization's annual program encompasses several management themes, which are highlighted in the following sections of the report:

- Maintaining the bridges' structural integrity, safety and security
- Ensuring financially sustainable operations
- Supporting federal government expenditure constraints
- Modernizing the bridge tolling system
- Advancing on a one-bridge operating model
- Improving service infrastructure, networks and system, and
- Creating a customer-centred organization

Assuring international travellers across the Blue Water Bridge of a consistently safe, efficient and positive experience is the essence of BWBC purpose. Maintaining the structural integrity of the twinned crossing is a critical element of that duty. In the fall of 2013, a qualified, professional engineering firm conducted a detailed assessment of the two main structures, along with the adjacent plaza truck ramp bridge. The investigation, which is conducted over a period of weeks, concluded that the bridges continue to be well maintained and in good condition. Ongoing maintenance work or repairs to keep the both spans in top structural form were also presented. In the months that separate the annual investigations, BWBC's Maintenance Department makes it a priority practice of addressing the engineers' recommendations. Any larger-scale improvements identified that might require outside expertise would become the responsibility of the Capital Projects Department for tendering and contract management. During the past year, repairs to the bridge deck in various locations along the truck lanes on the Canadian side of Span 2 were completed through a tendered contract. Throughout the warmer months, BWBC Maintenance staff, with the assistance of outside contractors as required, performed a variety of routine bridge care tasks, including deck surface patching, superstructure and railing welding repairs, cleaning and painting of the bridge structures and repairing several bridge deck expansion joints.

Prior to FY2011-2012, BWBC and its MDOT co-owner each managed separate engineering study contracts for its half of the bridge. The resulting study reports would then be exchanged between the co-owners for information and reference purposes. In 2012, BWBC and MDOT signed a three-year memorandum of understanding to jointly contract a single professional engineering firm on a cost-sharing basis to produce one comprehensive assessment report for all affected bridge structures. The shared project has benefitted both partners by offering a comprehensive perspective of the bridges' structural standing. Following the success of the past contract period, both partners are already discussing the mechanics of continuing the co-operative approach to future engineering study reports.

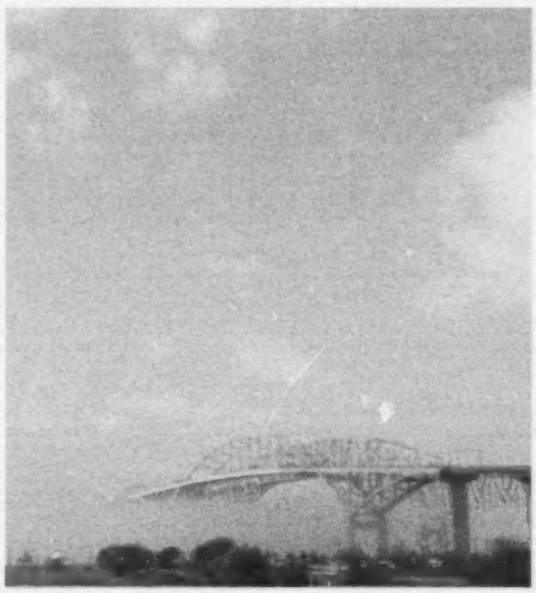
Maintaining the security of BWBC's bridge structures and all associated land assets is an ongoing responsibility that is managed by the Operations Department, but involves all employees and plaza tenants under a "see something, say something" philosophy. A wide variety of measures, ranging from the use of standard operating practices to the application of modern electronic devices, are in place for monitoring heavily travelled and less-visible areas. In addition, under the provisions of the mutual bridge security memorandum with Transport Canada, BWBC maintains a comprehensive security plan, which describes the multi-layered approach being applied. The plan is founded on an up-to-date property risk assessment, which is conducted by third-party security specialists. During 2013-2014, a number of additional property controls were put into action, as a result of the most recent property assessment.

For more than 75 years, the Blue Water Bridge's Canadian owner/ operator has prided itself in maintaining its non-appropriated, self-funding status. On one occurrence, during the implementation of the largest capital development program in the organization's history from 2009-2011, BWBC was fortunate to be awarded a grant under Canada's Economic Action Plan and Infrastructure Stimulus Fund. Otherwise, it has been the organization's obligation to build up its reserve funds, generated largely from tolling revenues, in preparation for planned major maintenance or capital development projects. From 2009-2011, the organization implemented phase 1 of its Master Capital Development Plan, the long-term blueprint for plaza development. As the plan was implemented, BWBC's reserves were drawn down substantially. A challenging period of slow economic growth has followed, prompting the Board and management to reduce the organization's current budget scope and to extend out further the second phase of its capital develop plan. The self-constraining measures have offered solid assurance that sufficient funds would exist to cover ongoing operating needs and debt servicing obligations.

As a further financial challenge, in the previous year, the federal government reaffirmed the corporation's requirement under provisions of the *Customs Act*, Section 6, to continue to cover the costs of providing and maintaining facilities and utility costs associated with the Blue Water Bridge-based Canada Border Services Agency organization. By comparison, the financial burden related to the presence of border security agency personnel on the U.S. side of the bridge is less onerous, since associated facilities are provided by and maintained with funding from a separate government services agency. In Canada, under Section 6, the federal responsibility is shifted to the bridge operators, whose primary source of revenue is bridge traffic tolls. Through a similar legislative directive, BWBC must also cover the Canadian Food Inspection Agency's local facilities and associated support costs. Annual costs borne by BWBC for the operations of the two local federal enforcement agencies during the past year totalled approximately $2.7M.

BWBC is responsible for the retirement of the original face value in 2002 of $110 million, 6.41 percent revenue bonds, due on July 9, 2027. The bonds helped fund the Span 2 bridge construction project. Bond covenants are in place to ensure adequate liquidity over the duration of the bond issue and cash reserves have been established to ensure timely, semi-annual payments. In addition, BWBC has a separate $15-million line of credit in place to fund temporary cash shortfalls resulting from the timing of capital expenditure payments. To date, nothing has been drawn on the facility. A further credit facility of $15 million was secured in 2011 to help finance the master plan's phase 1 infrastructure improvements. BWBC's total borrowing capacity may not exceed $125 million in accordance with the *Blue Water Bridge Authority Act*.

Based on its current 5-year planning horizon, BWBC is well positioned to satisfy its existing bond covenants and to remain financially self sufficient. Following a review of its financial revenue projections and the success of its operating cost containment efforts, the Board of Directors decided to forego a 25-cent, across-all-vehicle-classes toll rate increase, originally planned for September 2014. The current financial plan takes into account a continuing, albeit modest, recovery of bridge traffic volumes and, hence, increasing revenues. While toll revenues cannot be guaranteed, an extended period of continued growth affords the organization increased opportunities to implement a greater mix of maintenance activities and improvement projects. In 2013-2014, the vast majority of capital expenditures were allocated to infrastructure improvements on the two international bridges, with modest proportions addressing a variety of plaza needs, including repairs and improvements to plaza structures, the replacement of aging fleet vehicles and equipment, along



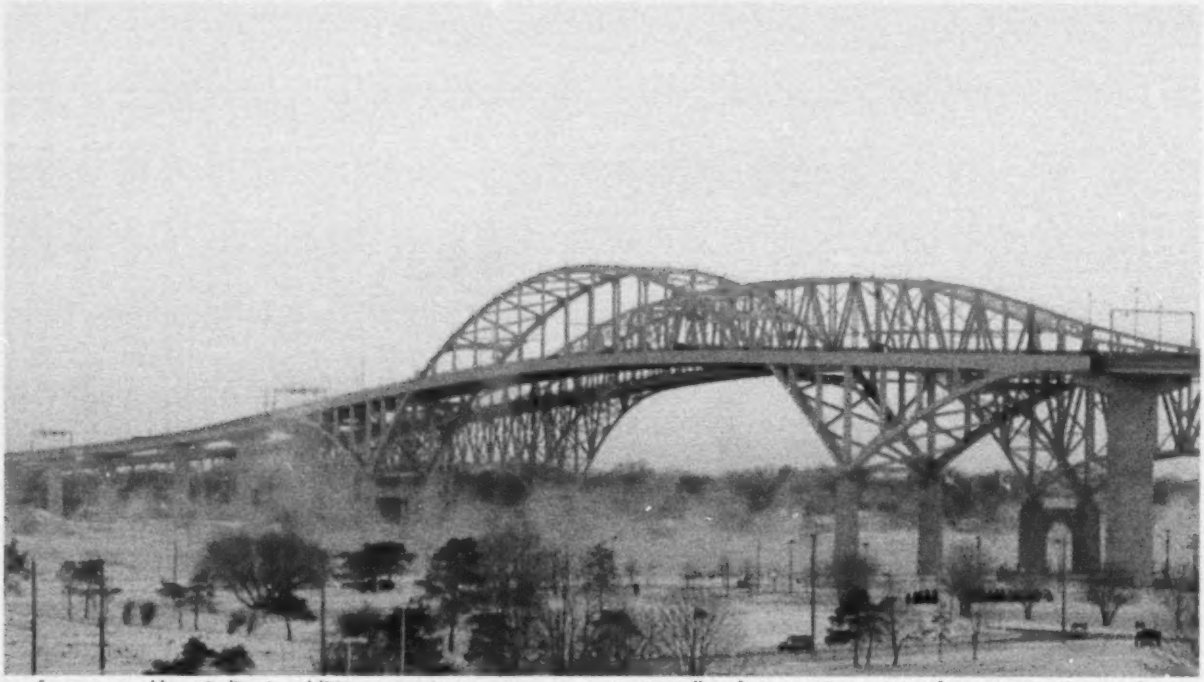
with system and network upgrades (see section below).

The global economic meltdown of 2009 still serves to remind the BWBC Board and management of its vulnerability in relying so extensively on tolls as its main source of revenue. When its largest commercial customer base, the auto sector, imploded during the depth of the recession, BWBC found itself forced to make substantial cuts to its operating budget and employee numbers just to sustain itself. From that hard lesson, the corporation realized that it needs to continue to diversify its sources of income. Preliminary investigations identified several opportunities for ancillary income opportunities related to its land base and property holdings. To this end, facility leases with existing plaza tenants have been renewed and expanded. For example, full occupancy of the Douglas G. Keddy tourism building was achieved in 2014 for the first time since 2010, with the relocation of Tourism Sarnia-Lambton's headquarters to the BWBC-owned facility.

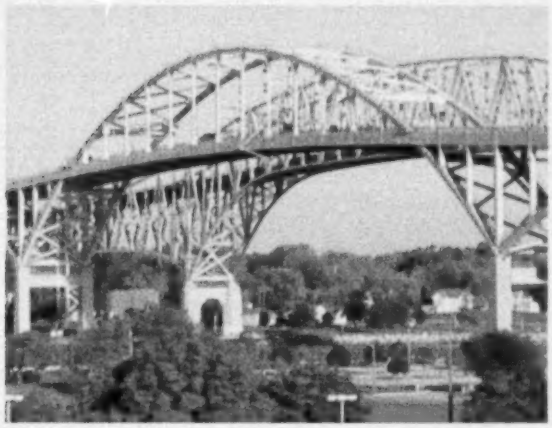
Midway through 2014, Treasury Board announced that the operating budget constraints introduced in 2010 for federal departments and Crown corporations funded through Parliamentary appropriations would be extended out to 2017. The government's guidance does not apply specifically to non-appropriated Crown corporations, like BWBC. However, consistent with the Board of Directors' cost control prerogative, BWBC will continue to abide by the expenditure constraints. The spending freeze will be maintained on controllable costs, such as travel, conferences and hospitality. In addition, wage increases have also been limited. Efforts have also been made to contain administration costs at 2011 levels during the three subsequent years. However, bridge operating and maintenance activities, which are funded by tolls revenues, must continue to be undertaken in a prudent manner to ensure public safety. In addition, unforeseen legal issues, which reached some resolution in 2014, put some additional strain on the organization's spending cap.

Revenues generated from bridge tolls represent approximately 80 percent of the corporation's income. As prescribed under the BWBAA, toll rates are regularly reviewed by the Board, and routinely adjusted, as circumstances warrant. Over the years, the Board has remained sensitive to the impact that bridge toll rates have on its customers, appreciating that the current state of the economy poses challenges for business owners, private citizens and government agencies alike.

BWBC's existing computer-based tolling system is more than 12 years old. In practical terms, modernizing the system in a timely manner is a practical means of managing the associated operating and financial risks. At the same time, preliminary investigations into modern tolling system options indicate that toll system improvements would offer substantial benefits to bridge travellers, as well as to BWBC. In 2013-2014, BWBC began implementing a two-year capital development project to automate its electronic tolling system. Automated tolling is a service improvement that will allow the organization to respond to requests by our bridge travellers for a greater variety of payment options and



controls. Further, the new system will streamline and improve the reliability of BWBC's toll collection process and back office services. At the same time, customers will be provided with an Internet-based portal through which they will be able to establish and manage their own toll payment accounts. In addition to allowing travellers to continue paying their bridge tolls to BWBC bridge attendants using cash or tokens, the new system will allow for unassisted payments by credit, debit, or special-issue Blue Water Bridge account cards. The installation of additional infrared reader technology in each lane will further speed up the toll payment crossing process for bridge travellers in the not-too-distant future.



Every day, the Blue Water Bridge's co-owners have seen good reason to work together. So, it is no surprise that BWBC and MDOT representatives meet on a regular basis to explore ongoing and future opportunities to share their ideas and resources for the benefit of each organization and the travelling public. The activities usually encompass elements where the joint efforts produce increases in operations quality and efficiencies, the trimming of costs and improvements to customer service. The motivation comes from inside both organizations, as well as from commercial and passenger traffic feedback. Regular traveller comments encourage the co-owners to look continuously for new and better ways to streamline their business services. Keeping the efficiencies of a "one bridge" model in mind, the two partners have continued to work together on a variety of projects over the past year, including:

- Traffic flow management/ emergency response procedures and communications
- Snowplowing operations and de-icer product application
- Equipment and expertise sharing
- Local installation of equipment for a new bridge traveller wait times reporting system
- Toll token use
- Commercial customer account card management
- Cross-bridge Integrated fibre optic technology
- Annual bridge engineering assessment and study reporting, and
- Customer service delivery mechanism investigations for new automated tolling systems.

Particularly in recent years, the scope and results of the ongoing exchange continue to expand. Discussions continue to be wide ranging, including the co-ordination of major bridge improvement projects. With clear successes of the approach in hand, the two partners will continue to look for additional avenues of common interest, where measurable, common benefit can be realized.

BWBC maintains an extensive series of integrated networks and systems for managing the transmission of service utilities and data throughout the plaza. Established over decades, today's infrastructure encompasses a broad mix of old and new, integrated and disparate installations. In some cases, the organization's recent development has simply outgrown its networks. For example, much of the infrastructure was installed to service the original buildings on the central Canadian plaza, which are due to be demolished within the next decade. In anticipation of its immediate and future growth needs, BWBC has been shedding a critical light on its infrastructure as a means improving organizational performance and efficiency.

The service infrastructure modernization process is materializing in a number of forms: updated technologies, increased energy and delivery efficiency, built-in redundancies, and system integration with ongoing and planned employee work processes. In particular, since 2011, efforts have been focused on migrating central utility services and information technology networks away from aging buildings to form a stand-alone service loop, capable of meeting current and future needs across the entire plaza. The loop incorporates fibre optic communications technology, which will be eventually connected across the bridge through a compatible network being installed from the U.S. side by MDOT.

At each step and in its entirety, the infrastructure improvement initiative will positively advance each affected aspect of BWBC's operations. It has, and will continue to, more effectively and efficiently link the various business systems, including human resources management, tolling, currency exchange, accounting and project management. The multi-year project is being phased and linked to associated capital developments, so that critical business systems continue to receive timely attention. During 2013-2014, the following system/network improvements were undertaken:

- Upgrading of utilities and communications services to the toll line
- Updating and expanding the primary data and security networks, including built-in redundancies
- Stabilizing and improving the Currency Exchange's business software program
- Upgrading the Human Resources Management System software program
- Developing a preventative maintenance software program
- Improving the BWBC Website, and bilingual references
- Updating and automating the electronic tolls collection system, and
- Phase 1 inventorying of the exterior plaza lighting grid, as a precursor to the phase 2 energy conservation efficiency assessment.

Based on 2013 and prior traveller input, BWBC has come to realize that its volume of commercial truck traffic has less to do with its on-site amenities and more to do with the bridge's position along a major transcontinental land transportation corridor. With the commercial trucking industry being so competitive, most companies would not be willing to cross the Blue Water Bridge if it was not located along the shortest possible destination route. However, in many cases, passenger vehicle travellers have greater flexibility and are able and willing to deviate from their intended course, if the alternative route would offer an interesting or beneficial feature.

As part of the Master Capital Plan update project for the Canadian plaza, approved by the Board of Directors in early 2014, BWBC has endeavoured to create future development opportunities that would position the crossing in the most favourable light for its passenger vehicle travellers. For example, the plan presents the concept of a central plaza visitor service complex. Accessible to east- and west-bound travellers, as well as to local visitors, the updated plaza concept offers the following benefits:

- Provides a secure and safe rest station
- Contributes to the efficiency and convenience of customer travel, by taking extraordinary and innovative measures to ease travellers' traditional worries about crossing an international border, and
- Provides passenger vehicle drivers with appropriate prompts and supports in advance of their border crossing to orient them to the environment, features and benefits of the Blue Water Bridge plaza.

The current long-term plan calls for the phase 2 plaza development to begin within 8 – 10 years, with funding being allocated as available.

RECENT EVENTS

Subsequent to BWBC's 2013-2014 year end, the Government of Canada announced further details regarding the planned amalgamation of a number of its international bridges, including the Blue Water Bridge. The announcement was included in the government's second implementation bill, Bill C-43 - Economic Action Plan 2014 Act, No. 2, which was tabled and received first reading on October 23, 2014. BWBC is anticipating that the amalgamation will be completed by the end of 2014. Management and the Board are working with the Federal Bridge Corporation Limited and Transport Canada to implement the change. The results of operations discussion below and the audited financial statements for the year ended August 31, 2014, do not reflect the impact of any potential change in operations as a result of the future amalgamation.

RESULTS OF OPERATIONS

In reviewing the financial results, it is important to note that BWBC is a federal Crown corporation without share capital. Under BWBC's financial model, all funds, whether generated through revenues or debt, are used for bridge operations, ancillary bridge-related activities, construction, repairs and maintenance, debt payments, reserve funds and other activities within BWBC's mandate.

Revenues are derived from four primary sources: tolls and services; rents; Currency Exchange services, and; interest and sundry income. The profitability of BWBC is affected by a number of factors, including fluctuating exchange rates, the strength/weakness of both the Canadian and the U.S. economy and tourism in the local Sarnia-Lambton area. Profitability is largely dependent upon positive economic activity in both Canada and the U.S. When the U.S. economy is robust or expanding, exports of Canadian products tend to rise. A growing Canadian economy will also result in an increase in the flow of goods, services and people across the two countries' land borders. BWBC's profitability improves with such increases in economic activity, since the Blue Water Bridge is a major international crossing between the two trading nations.

Sales volumes at the Blue Water Bridge Duty Free Shop and Currency Exchange service are affected by changes in the rates of the Canadian and U.S. dollars and with cross-border traffic volumes. During much of 2013-2014, the value of the Canadian dollar was lower than that of the U.S. dollar, which would suggest that American travellers could receive greater value for their money by travelling in Canada. However, discretionary trips into Canada by U.S. travellers remain suppressed, continuing to be adversely affected by the more stringent traveller documentation requirements introduced by the U.S. Department of Homeland Security in 2009 under its Western Hemisphere Travel Initiative. At the same time, Canadians are crossing into the United States for short-term shopping trips in greater numbers, attracted by retail prices and product selection, particularly when the U.S. dollar moves closer to parity with its Canadian counterpart.

A higher level of Duty Free Shop sales activity as a result of increased traffic volumes translates into additional rental income for BWBC, the specialty retailer's landlord. As well, increased activity at the Currency Exchange service results in additional revenues for BWBC, which owns the local operation. BWBC works with the Duty Free Shop and its Currency Exchange team on an ongoing basis to promote traveller awareness and to help encourage a positive business environment for the two enterprises

Summary of Results

Following is a summary of selected financial results, comparing the two most recent fiscal years and the 2014 Corporate Plan.

(in thousands of dollars)

	2014	2013	Corporate Plan
	$	$	$
Revenues	**26,231**	24,751	24,[illegible]9
Expenses	**23,343**	23,270	24,057
Net income for the year	**2,888**	1,481	942

Overall, profitability increased compared to the prior year and compared to the corporate plan. The improved operational performance is a direct result of a slowly improving economy.

Revenues were $1.48 million higher than the prior year and $1.2 million more than planned, primarily due to an increase in traffic, a toll rate adjustment across all vehicle segments of $.25 per axle in January 2013, and an improvement in the U.S. exchange rate on toll revenue. Slowly improving economies in Canada and particularly in the United States contributed to the increase in revenues. It is anticipated that the trend contributing to a continuing, but gradual improvement of revenues will extend into the next fiscal year.

Expenses were $714 thousand lower than originally planned and consistent with the prior year. Depreciation was lower than budgeted due to a regular review of assets and changes to the implementation schedule for the Phase 2 Master Capital Plan during the year. As a result of setting a longer timeline for master capital development, management implemented a plan to extend the useful lives of existing buildings originally planned for demolition. Looking forward, BWBC will be repaving one of the bridge spans commencing in Fiscal 2015 and will continue other phases of the project through Fiscal 2017. The effect of the corporate restructuring during Fiscal 2013 resulted in reductions in salaries, wages and benefits. The process of amalgamating Blue Water Bridge Canada with other international bridges owned by the Canadian government and other unforeseen legal issues has increased General and Administration expenses. The largest component of expenses is related to the depreciation of BWBC assets. While significant, it is important to understand the non-cash nature of such expense line items in the financial statements.

Detailed Review of Results

OPERATIONS

Year ended August 31

(in thousands of dollars)

	2014	2013	Corp Plan
	$	$	$
REVENUES			
Tolls and services	21,803	20,156	20,358
Facility rentals	2,596	2,632	2,658
Currency exchange department	1,432	1,625	1,643
Interest and sundry	315	344	340
Gain (loss) on disposal of property, plant and equipment	85	(6)	—
	26,231	24,751	24,999
EXPENSES			
Depreciation of property, plant and equipment	6,561	7,229	7,234
Interest on long-term debt	5,642	5,842	5,632
Salaries, wages and benefits	5,743	5,886	5,918
General and administrative	2,588	2,094	2,100
Maintenance and other expenses	2,185	1,494	2,402
Depreciation of investment property	601	754	725
Depreciation of intangible assets	23	70	46
(Recovery from) contribution to MDOT	—	(99)	—
	23,343	23,270	24,057
Net income for the year	2,888	1,481	942

REVENUES

Tolls and Services Revenue increased by $1,647 or 8%, driven mainly by an increase in cross-border vehicle volume ($719 increase). Including the additional, positive effect of the January 2013 toll rate increase, toll revenues increased by $495. The weaker Canadian dollar had a positive effect on United States dollar foreign exchange ($457 increase). Other areas that resulted in a change in toll revenues include token usage, vehicle escort fees and mixed axle differences ($24 decrease). In comparison to the corporate plan, toll revenue was higher than expected, by $1,445 or 7%. For forecasting purposes, BWBC used a modest 1% annual increase in traffic volumes.

Facility Rentals Revenue decreased by $36 due primarily to decreased revenue from the Duty Free Shop. Duty Free rental revenue was also lower than corporate plan expectations ($62 decrease). The Duty Free Shop pays a base-plus rent, which includes a percentage of sales. Increased traffic at the bridge normally results in an increase in sales at the Duty Free Shop, which results in improved rental revenue. However, this year was an anomaly due to an expansion of the Duty Free building. In the busy summer months, the Duty Free Shop building was under construction/ renovation, which might have been a contributing factor to decreased sales during those traditionally high-volume months. Other rental income is derived from the rental of space at BWBC's Blue Water Bridge Corporate Centre to customs brokers/ transportation logistics firms. Property rental revenue is also received from the Ontario Tourism Marketing Partnership Corporation, which occupies space in BWBC's Travel Information Centre.

Currency Exchange Department Revenue decreased by $193. An internal cash management procedural change between Currency Exchange and Operations/ Tolls was attributed to the decrease. As the result of an improvement in money transfer procedures routinely conducted between the two BWBC departments, Currency Exchange recorded a decrease in revenues, while Tolls reported a reciprocal increase.

The Currency Exchange service is managed in accordance with the regulations for financial

institutions, as administered by the Financial Transactions and Reports Analysis Centre of Canada (FINTRAC), and is subject to regular, third-party compliance audits by the regulator. As required, the Currency Exchange successfully completed its bi-annual anti-money laundering/ counter-terrorist financing compliance review this year.

Interest and Sundry Income decreased due to a drop in interest rates for current investments, compared to returns from long-term investments during the previous year. BWBC manages its investments to provide the necessary cash flow for capital projects and to ensure reserves required to meet future debt obligations are maintained. As such, BWBC's investment policy is necessarily conservative and, therefore, subject to interest rate fluctuations, given the nature of permitted investment vehicles.

EXPENSES

Depreciation Expense decreased due to changes in the future outlook for Master Capital Plan development projects. Buildings that were slated for demolition in the near future have now been re-purposed. In comparison to the corporate plan, the depreciation expense on property, plant, equipment, intangible assets and investment property was $820 thousand lower for the same reason as described above.

Interest Expense decreased due to a lowering of the remaining principal for the bond and bank loans ($200 decrease).

Salaries, Wages and Benefits Expense decreased due to changes in staffing as a result of the corporate reorganization which took place in March 2013.

Maintenance Expenses increased mainly due to increased work on Span 2 ($287 increase), increased building maintenance ($60 increase) and increased snow removal and equipment ($81 increase). In comparison to the corporate plan, maintenance is much lower, due mainly to an extension on the implementation schedules for the toll plaza reconstruction and bridge repaving projects. The projects began in Fiscal 2013-2014; however, neither will be complete until Fiscal 2014-2015.

General and Administrative Expenses increased relative to the prior year and to the corporate plan, primarily due to the need for special-skill consultants to assist BWBC with its amalgamation and legal proceedings. In addition, Fiscal 2013-2014 saw its second increase under the new Municipal Property Assessment Act amendments, which will be rolled in over a four-year period. Increased property taxes of $111 are reflected in the current year for a total increase in General and Administrative Expenses of $494.

Contribution to Michigan Department of Transportation (MDOT) was a one-time expense in 2012 to help alleviate traffic congestion on the U.S. side of the bridge. Considerable improvements were made in Fiscal 2012-2013 and 2013-2014 to diminish the delays experienced in past years. The recovery in Fiscal 2012-2013 was the result of the project coming in at less than originally budgeted and accrued.

Financial Position

Following is a summary of selected financial results for the two most recent fiscal years.

Year ended August 31
(in thousands of dollars)

	2014	2013
	$	$
ASSETS		
Current	17,864	14,282
Long-Term	227,871	229,695
	245,735	243,977
LIABILITIES		
Current	9,353	8,562
Long-Term	95,052	96,339
	104,405	104,901
NET EQUITY	141,330	139,076

LIQUIDITY AND CASH FLOW

The cash position of the BWBC has continued to strengthen. Starting with $11,996 in cash at the beginning of the fiscal year, a further $11,050 in cash was generated from operations during the ensuing 12 months. The amount was partially offset by the undertaking of $3,012 in capital projects, the pay down of $3,732 in bond principal and $404 in bank debt. Approximately $15.682 remained in cash balances at the end of the year.

BWBC is required under the terms of its long-term bonds agreement to maintain certain cash reserves. The reserves, totalling approximately $6,506, are included in long-term assets and do not form part of the operating cash funds. Management's investment policy requires that the funds be maintained in secure, liquid investments. Oversight is provided by the Audit Committee of the Board of Directors, which also serves as the Investment Committee. The ongoing review of compliance with the debt agreement covenants is performed by both management and the committee.

Over the next five years (2015-2019), the existing cash and investment balances, in tandem with continued, expected positive cash generated from operations, will finance the planned capital projects, which are minimal and required bridge maintenance which is expected to be substantial. The remaining cash will be invested for future capital development and planned major maintenance of facilities and services.

Current liabilities consist primarily of the current portion of long-term debt obligations ($4,332) and deferred toll revenue accounts generated through commercial trucking accounts for prepaid toll payment cards ($2,495). The deferred revenue component is a growth area for BWBC. It is anticipated that deferred revenue will continue to increase with the implementation of the new automated toll system in 2015.

The largest component of non-debt, long-term liabilities is a provision for employee future benefits. BWBC maintains a comprehensive benefit plan for current and retired employees. Anticipated future obligations under the current terms of these plans are estimated to be $6,625.

INVESTMENT IN CAPITAL

Ongoing capital improvements during 2014 were focused on the implementation of a new toll system which will allow customers to make payments using various methods and will allow BWBC to streamline its operations.

CRITICAL ACCOUNTING POLICIES AND FUTURE POLICY CHANGES

BWBC monitors changes to the International Financial Reporting Standards on a regular basis. Note 3 (j) of the audited financial statements outlines, in detail, the changes expected in future years.

Risks and Uncertainties

BWBC's Board of Directors is accountable for the oversight of principal risks associated with the organization's business and has delegated oversight of the risk management process to its Audit Committee. The Audit Committee is responsible for ensuring that management has appropriate policies and procedures in place and are being effectively applied to identify and manage specific risks.

BWBC's management of its risks is governed by a risk management policy, which sets out the Board's responsibilities to:

- Understand the significant risks to which BWBC is exposed
- Establish appropriate and prudent risk management policies for those risks, review the policies regularly, and satisfy the Board on an annual basis that the policies continue to be appropriate and prudent, and
- Obtain reasonable assurance on a regular and annual basis that the Corporation has an effective risk management process and that risk management policies are being administered, maintained and updated as required.

The Board's Audit Committee is mandated to assist in carrying out the associated responsibilities and has established expectations of management with respect to supporting the Board in fulfilling its risk management responsibilities. BWBC's risk management process and results are subject to validation by BWBC's internal auditor.

BWBC operations and its financial results are subject to certain risks. At present, they include, without limitation, the following:

Self-sustainability Risk – BWBC operates as a non-appropriated Crown of the federal government. Funding for bridge operations and capital is generated by way of operations-related funds or debt, not government-funded support. As of August 31, 2014, BWBC had outstanding debt obligations, including accrued interest, of approximately $91 million, the proceeds of which were used to rebuild and expand the bridge's infrastructure. In its management of costs and revenues, BWBC has examined scenarios to determine the range of impact of variability in the bridge's operating activities, costs and revenues on cash flows and funding requirements. The toll rate-setting methodology targets levels of cash flow sufficient so as to not only fund operating expenses, maintenance and restoration capital expenditures, but also, in most years, to fund other capital investments and debt repayment. Depending on the timing of cash flows and actual operating activity levels in any given year, BWBC may use its prerogative to consider implementing additional toll increases to support its operations. The risk of insufficient cash flows has a direct impact on BWBC's ability to manage its debt obligations and ensure compliance with its debt covenants. Rolling five-year corporate plans are prepared/ updated annually and reviewed to identify the long-term cash needs that will support infrastructure and debt management. The Governor in Council approves the Corporate Plan submissions annually to ensure the ongoing sustainability of bridge operations. The bond rating agency Standard and Poor's rates BWBC's existing bonds on an annual basis providing further oversight and assurance that debt obligations can be met.

Regulatory Compliance Risk – Bridge operations are governed by a number of domestic regulations and standards. The failure of BWBC to meet regulatory requirements might have an impact on the BWBC's ability to operate the bridge or achieve its strategic goals and objectives. Management of BWBC meets regularly with its bridge co-owner, MDOT, as well as with Transport Canada and other regulators to ensure it remains compliant with all applicable requirements. Oversight of the Currency Exchange service is provided by the Office of Financial Institutions compliance audit program. External anti-money laundering/ counter terrorist financing compliance reviews and audits are conducted on a regular basis and require absolute compliance in order to maintain operations. Regular internal reviews support management's accountability in the business segment.

Asset Integrity Risk – The provision of services at the Blue Water Bridge is dependent on the availability of physical infrastructure, such as plaza buildings, roadways, approaches, bridge spans, etc. In addition, BWBC is highly dependent on information technology assets and data. Should any related assets become unavailable due to an accident, incident or maintenance failure, the ability to provide services and earn revenue might be impaired. BWBC maintains insurance to protect itself against damage to its property and business interruption. While the organization operates a well-developed asset management system, including proactive bridge inspections, repairs and maintenance, there always remains the risk of an asset failure that might have an impact on operations or financial results.

Security Risk – The Canadian government is responsible for national security and public protection using passenger and commercial vehicle monitoring and inspection at the bridge through the CBSA and the CFIA. BWBC is responsible for other aspects of site security and safety, including protecting the integrity of the bridge infrastructure, the

associated plaza and its tenants. Working with the Blue Water Bridge co-owner, MDOT, as well as the U.S. CBP and area law enforcement and emergency responders is also part of BWBC's responsibility for ensuring safe operations across its holdings. The inability of BWBC to maintain a safe, secure environment for its employees, customers and for its physical assets might result in a loss of confidence by the travelling public or commercial vehicle operators, leading to a reduction in activity and associated revenue at the bridge. A security breach might also result in enhanced regulation, affecting bridge users and tenants and in lost revenue or additional expense to BWBC.

Partnership Risk – BWBC works in partnership with a number of other parties at the bridge to ensure the safe and secure cross-border movement of commercial and passenger vehicles. Associated parties include government agencies, international bridge operators and third-party vendors. Should any of the parties fail to deliver services as required, or in a manner that is out of sync with other partners, there might be impacts that impede BWBC's ability to deliver a valued service to its customers and stakeholders. BWBC has limited control over its partners in many instances. A failure to capitalize on an alliance or partnership opportunity might adversely affect BWBC's ability to meet its business objectives or public service obligations. In many instances where, for example, government agencies are involved, there is no alternative party with which BWBC can work in order to deliver the required service.

Political Relationship Risk – As a federal Crown corporation, operating under the portfolio of the Minister of Transport, BWBC is subject to policies, regulations and legislation enacted by various segments of government, including those governing bridge safety, security and operational standards, human resources and financial management. Unanticipated or adverse changes to such policies, regulations or legislation might adversely affect the operations of the bridge and the financial condition of BWBC.

Resource Management Risk – Efficient and effective governance and operational management are key objectives of BWBC. The Board of Directors has undertaken a number of initiatives to implement its Strategic Plan. Should appropriate resources (skilled human and financial) not be appropriately identified, secured, aligned and prioritized, the BWBC may not be successful in implementing these plans and realizing its Strategic Plan objectives.

Labour Risk – The current collective agreement between BWBC and the Public Service Alliance of Canada, Local 501, which represents the BWBC's unionized wage employees, expires in November 2014. In Fiscal 2014-2015, BWBC and union representatives will commence the collective bargaining process to determine the terms of a new agreement. In the event of a labour disruption involving BWBC's unionized employees, the organization will activate a contingency plan to maintain the safe and secure operation of the bridge.

Community Support Risk – Any action, inaction, perceived action, or perceived inaction by BWBC, its representatives, or business partners might impair BWBC's public image, resulting in a loss of public confidence, increased regulator intervention, or harm to its brand. BWBC meets regularly with tenants, government officials, local businesses, municipalities and the general public to share strategic initiatives and to garner input and feedback from interested parties to ensure common understandings and ongoing support for its bridge operations and long-term plans.

Competition/Market Share Risk – In some instances, commercial and passenger vehicle operators might have alternative routes for travelling between Canada and the United States, including other bridges, or alternate modes of transportation. The Windsor, ON-Detroit, MI corridor is a competing bridge traffic zone. Factors such as price, proximity to destination and route convenience might influence the choice made by cross-border travellers. Open access expressways and BWBC's programs of maintenance and security at the bridge are leading influences in the effort to sustain bridge traffic. Joint projects with the MDOT, which promote the safety and efficiency of bridge traffic, along with the provision of services to enhance traveller experience, such as the use of stacked/ staggered inspection lane booths and Currency Exchange, contribute to BWBC's ongoing success of operations.

INTERNAL AUDIT FUNCTION

As part of the oversight of BWBC's risk management program, the Audit Committee of the Board has the responsibility to receive and review internal audit reports provided by the BWBC's internal auditor, Ernst & Young, LLP.

During fiscal 2014, Ernst & Young conducted two internal audits as follows:

Contract Management

A contract management audit was conducted to assess whether appropriate processes and controls were being applied to ensure that the contract terms and conditions were being complied with and that the contractor's performance under those terms were being managed. The report concluded that there were opportunities for improvement, which were mostly addressed by management prior to year end.

Network Security

An information technologies network security audit was conducted to assess the capabilities of the BWBC network's security parameters and processes to ensure the protection of associated data, assets and information. The audit was ongoing at year end.

FORWARD-LOOKING STATEMENTS

This management discussion and analysis contains certain forward-looking information about BWBC. The forward-looking information is based on a variety of assumptions and is subject to risks and uncertainties. There is significant risk that: predictions, forecasts, conclusions and projections, which constitute forward-looking information, will not prove to be accurate; the assumptions might not be correct and that actual results might vary from the forward-looking information. BWBC cautions readers of this document to not place undue reliance on the forward-looking information, as a number of factors could cause actual results, conditions, actions, or events to differ materially from the targets, expectations, estimates or intentions expressed in the forward-looking information.

Words such as "believe," "expect," "plan," "intend," "estimate," "anticipate" and similar expressions, as well as future or conditional verbs such as "will," "should," "would," "could" and "might," often identify forward-looking information. Such forward-looking statements are not facts but only estimates regarding future results. The estimates are based on certain factors or assumptions regarding expected growth, results of operations, performance, business prospects and opportunities. While management considers its assumptions to be reasonable based on available information, they might prove to be incorrect. In addition, actual results might differ materially from those expressed, implied or forecasted in such forward-looking information, which reflect BWBC's expectations only as of the date at which it was prepared.

Factors that could cause actual results or outcomes to differ materially from the results expressed, implied, or forecasted in such forward-looking information include, among other things, items noted previously in the section titled *Risks and Uncertainties*. The reader should review the section in detail.

The forward-looking information contained in this section of the document represents expectations as of the date of this report and is subject to change. BWBC disclaims any intention, or obligation to update or revise any forward-looking information whether as a result of new information or future events, or for any other reason, except as required by applicable law.

MANAGEMENT'S STATEMENT OF RESPONSIBILITY

Management of Blue Water Bridge Canada is responsible for the preparation and fair presentation of the financial statements and all other information contained in this annual report. The financial statements have been prepared in accordance with International Financial Reporting Standards and necessarily include certain amounts that are based on management's best estimates and judgment. Financial information contained throughout the annual report is consistent with that in the financial statements. Management considers that the financial statements present fairly the financial position of the corporation, as well as its financial performance and its cash flows.

To fulfill its responsibility, Blue Water Bridge Canada maintains systems of internal controls and practices to ensure the reliability of financial information, the safeguarding of assets and compliance with the *Financial Administration Act* and regulations, as well as the *Blue Water Bridge Authority Act* and by-laws of the corporation. The internal control systems are subject to periodic reviews by Ernst & Young, LLP engaged as internal auditor. The external auditor, the Auditor General of Canada, has audited the corporation's financial statements for the year ended August 31, 2014 and his report indicates the scope of his audit and his opinion on the financial statements.

The Audit Committee of the Board of Directors meets periodically with the internal and external auditors and with management to review the scope of their audits and to assess reports on audit work performed. The financial statements have been reviewed and approved by the Board of Directors on the recommendation of the Audit Committee.

John R. Elliott
Chief Operating Officer

Matthew Earley
Controller

Point Edward, Ontario
Canada

November 12, 2014

Auditor General of Canada
Vérificateur général du Canada

INDEPENDENT AUDITOR'S REPORT

To the Minister of Transport

Report on the Financial Statements

I have audited the accompanying financial statements of the Blue Water Bridge Authority, which comprise the statement of financial position as at 31 August 2014, and the statement of comprehensive income, statement of changes in equity and statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with International Financial Reporting Standards, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

My responsibility is to express an opinion on these financial statements based on my audit. I conducted my audit in accordance with Canadian generally accepted auditing standards. Those standards require that I comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my audit opinion.

Opinion

In my opinion, the financial statements present fairly, in all material respects, the financial position of the Blue Water Bridge Authority as at 31 August 2014, and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards.

Report on Other Legal and Regulatory Requirements

As required by the *Financial Administration Act*, I report that, in my opinion, the accounting principles in International Financial Reporting Standards have been applied, after giving retrospective effect to the change in the method of accounting for employee benefits as explained in Note 19 to the financial statements, on a basis consistent with that of the preceding year.

Further, in my opinion, the transactions of the Blue Water Bridge Authority that have come to my notice during my audit of the financial statements have, in all significant respects, been in accordance with Part X of the *Financial Administration Act* and regulations, the *Blue Water Bridge Authority Act* and the by-laws of the Blue Water Bridge Authority.

Maurice Laplante, CPA, CA
Assistant Auditor General
for the Auditor General of Canada

12 November 2014
Ottawa, Canada

BLUE WATER BRIDGE CANADA
STATEMENT OF FINANCIAL POSITION

As at
(in Canadian dollars)

	August 31, 2014	August 31, 2013	September 1, 2012
	$	$	$
ASSETS		*(Restated–Note 19)*	*(Restated–Note 19)*
Current			
Cash *[notes 4 & 16]*	**15,682,279**	11,996,067	9,314,854
Investments *[note 4]*	**1,263,394**	1,219,993	—
Trade and other receivables *[note 16]*	**499,618**	674,686	421,955
Prepaid expenses	**419,178**	391,714	372,045
Total current assets	**17,864,469**	14,282,460	10,108,854
Investments	**—**	—	1,167,613
Property, plant and equipment *[note 5]*	**204,646,473**	207,845,121	214,245,692
Intangible assets *[note 5]*	**38,590**	45,546	108,703
Investment properties *[note 5]*	**16,678,647**	15,430,710	16,055,570
Restricted funds *[note 6]*	**6,506,411**	6,373,662	5,818,022
	245,734,590	243,977,499	247,504,454
LIABILITIES AND EQUITY			
Current			
Trade and other payables *[note 16]*	**2,313,102**	2,094,790	4,020,119
Holdbacks payable	**213,094**	—	118,990
Deferred revenue *[note 7]*	**2,495,001**	2,393,767	1,971,245
Current portion of loans payable *[notes 9 & 10]*	**418,726**	404,068	390,206
Current portion of bonds payable *[notes 9 & 11]*	**3,913,155**	3,669,326	3,440,690
Total current liabilities	**9,353,078**	8,561,951	9,941,250
Employee benefits *[note 8]*	**6,625,077**	5,514,691	6,066,816
Non-current deferred revenue *[note 7]*	**1,933,931**	—	—
Non-current loans payable *[notes 9 & 10]*	**13,381,662**	13,800,492	14,204,560
Non-current bonds payable *[notes 9 & 11]*	**73,110,626**	77,023,780	80,693,106
	104,404,374	104,900,914	110,905,732
EQUITY			
Retained Earnings	**141,330,216**	139,076,585	136,598,722
	245,734,590	243,977,499	247,504,454

Commitments and contingencies and provisions *[notes 13 and 14]*

On behalf of the Board of Directors,

Larry Kinley, Vice-chairperson

Gary Atkinson, Director

BLUE WATER BRIDGE CANADA
STATEMENT OF COMPREHENSIVE INCOME

Year ended August 31
(in Canadian dollars)

	2014	2013
	$	$
REVENUES		*(Restated–Note 19)*
Tolls and services	21,802,987	20,155,600
Facility rentals *[note 12]*	2,595,503	2,632,236
Currency exchange department	1,432,350	1,624,979
Interest and sundry	315,169	344,385
Gain (loss) on disposal of property, plant and equipment	85,147	(6,131)
	26,231,156	24,751,069
EXPENSES		
Depreciation of property, plant and equipment	6,560,598	7,229,414
Interest on long-term debt	5,641,963	5,842,444
Salaries, wages and benefits	5,743,315	5,885,686
General and administrative	2,587,505	2,094,357
Maintenance and other expenses	2,185,081	1,493,840
Depreciation of investment property	601,230	753,612
Depreciation of intangible assets	22,974	70,002
(Recovery from) Michigan Dept. of Transportation	—	(98,795)
	23,342,666	23,270,560
Net income for the year	2,888,490	1,480,509
OTHER COMPREHENSIVE INCOME		
Item that will not be reclassified to net income:		
Actuarial (losses) gains	(634,859)	997,354
Total comprehensive income	2,253,631	2,477,863

STATEMENT OF CHANGES IN EQUITY

Year ended August 31
(in Canadian dollars)

	2014	2013
	$	$
		(Restated–Note 19)
Retained earnings, beginning of year	138,336,254	136,890,501
Retrospective restatement of employee benefits (note 19)	740,331	(291,779)
Retained earnings, beginning of year (restated)	139,076,585	136,598,722
Net income for the year	2,888,490	1,480,509
Other comprehensive income for the year	(634,859)	997,354
Retained earnings, end of year	141,330,216	139,076,585

BLUE WATER BRIDGE CANADA
STATEMENT OF CASH FLOWS

Year ended August 31
(in Canadian dollars)

	2014	2013
	$	$
OPERATING ACTIVITIES		*(Restated–Note 19)*
Net income for the year	2,888,490	1,480,509
Add (deduct) items not involving cash		
Depreciation of property, plant and equipment	6,560,598	7,229,414
Depreciation of intangible assets	22,974	70,002
Depreciation of investment property	601,230	753,612
Amortization of bond agency fees	63,164	63,577
Change in employee benefits	475,527	445,229
(Gain) loss on disposal of property, plant and equipment	(65,147)	6,131
Change in accrued interest income on investment	315,068	(52,379)
Interest revenue recognized - restricted funds	(132,749)	(174,299)
Foreign exchange (gain) loss	(60,052)	267,388
	10,649,103	10,089,184
Changes in non-cash working capital balances related to operations		
Trade and other receivables	175,068	(252,731)
Prepaid expenses	(27,464)	(19,669)
Trade and other payables	9,117	(1,394,109)
Holdbacks payable	16,159	—
Deferred Revenue	227,816	295,939
Cash provided by operating activities	11,049,799	8,718,614
INVESTING ACTIVITIES		
Proceeds from disposal of property, plant and equipment	122,266	—
Purchase of property, plant and equipment	(3,011,833)	(1,485,184)
Purchase of investment property	(22,923)	(2,169)
Purchase of intangible assets	(16,018)	(6,845)
Proceeds from disposal of investments	900,563	—
Purchase of investments	(1,259,032)	—
Proceeds from disposal of restricted funds	2,463,326	2,380,210
Purchase of restricted funds	(2,463,326)	(2,761,552)
Cash used in investing activities	(3,286,977)	(1,875,540)
FINANCING ACTIVITIES		
Repayment of bank loan payable	(404,172)	(390,206)
Repayment of bonds payable	(3,732,490)	(3,504,267)
Cash used in financing activities	(4,136,662)	(3,894,473)
Foreign exchange gain (loss) on cash held in foreign currency	60,052	(267,388)
Net increase in cash during the year	3,686,212	2,681,213
Cash, beginning of year	11,996,067	9,314,854
Cash, end of year	15,682,279	11,996,067
Supplemental Disclosure of Cash Flow information		
Interest received included in operating activities	448,155	595,528
Interest paid included in operating activities	5,668,988	5,909,253
Interest received included in investing activities	283,913	—

The accompanying notes form an integral part of these financial statements

BLUE WATER BRIDGE CANADA
NOTES TO THE FINANCIAL STATEMENTS
August 31, 2014

1. Authority and Objective

Blue Water Bridge Canada (BWBC), legally known as the Blue Water Bridge Authority, is located at 1555 Venetian Boulevard, Point Edward, Ontario, Canada. BWBC was established by the *Blue Water Bridge Authority Act* (Canada) on May 21, 1964. As per Section 22, BWBC is not an agent of Her Majesty in right of Canada.

On April 26, 2002, BWBC became a Crown corporation, and as such, is listed under Schedule III, Part I of the *Financial Administration Act* and is not subject to income tax under the provisions of the *Income Tax Act*. In October 2007, the Minister of Transport confirmed that the new operating title of Blue Water Bridge Canada was approved and registered by the *Federal Identity Program*.

The Blue Water Bridge complex includes the Canadian portion of two international toll bridges connecting Point Edward, Ontario, Canada, with Port Huron, Michigan, USA. Span 1 was completed in October 1938 and Span 2 in July 1997 with the complete reconditioning of the original span completed in 1999. Under the direction and guidance of the Minister of Transport, the mandate of BWBC is to operate, maintain and repair the Canadian halves of the two bridges, approaches and structures. The BWBC is considered a Government Business Enterprise for the reason that it has the ability to sustain its current operations and generate additional revenue as it deems necessary.

The *Blue Water Bridge Authority Act* and Section 6 of the *Customs Act*, require BWBC to provide, equip and maintain, free of charge, adequate buildings, accommodations or other facilities for the proper detention and examination of imported goods or for the proper search of persons by customs and immigration officers, the modern-day mandate of the Canada Border Services Agency. A similar provision in the *Plant Protection Act* mandates similar support for the Canadian Food Inspection Agency (CFIA) based at the land crossing.

2. Basis of Preparation

Statement of Compliance
The financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS) as issued by the Accounting Standards Board (AcSB) and using the accounting policies described herein.

The financial statements were authorized for issue by the Board of Directors on November 12, 2014.

Basis of Measurement
These financial statements have been prepared on a historical cost basis as set out in the accounting policies below, except as permitted by IFRS and as otherwise indicated within these notes.

Functional and Presentation Currency
The financial statements are presented in Canadian dollars, which is BWBC's functional currency.

Use of Estimates and Judgments
The preparation of financial statements in accordance with IFRS requires Management to make judgments, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, income and expenses. Actual amounts may differ from these estimates.

Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized in the period in which the estimates are revised and in any future periods affected.

Judgments included in the financial statements are decisions made by Management, based on an analysis of relevant information available at the time the decision is made. Judgments relate to application of accounting policies, and decisions related to the measurement, recognition and disclosure of financial amounts.

Information about significant areas of estimation uncertainty and critical judgments in applying accounting policies that have the most significant effect on the amounts recognized in the financial statements are included below and in the statement notes relating to items subject to significant estimate uncertainty.

Property, Plant and Equipment, Intangible Assets and Investment Properties
Property, plant and equipment, intangible assets and investment properties are depreciated over their useful lives. Useful lives are based on management's estimates of the periods of service provided by the assets as outlined in note 3(c). The appropriateness of useful lives of these assets is assessed annually. Changes to the useful life estimates would affect future depreciation expenses and the future carrying value of assets. BWBC has a Master Capital Plan regarding replacing certain infrastructure and facilities. The useful lives are changed to be in line with the revisions of, and updates to the plan.

In order to establish useful lives for these assets, Management uses its judgment to determine the componentization of property, plant and equipment, intangible assets and investments properties. A component is accounted for separately, if it is significant in comparison to the value of the entire asset and if its useful life differs from the other components.

Long-lived Assets Valuation
BWBC performs impairment testing on its long-lived assets, when circumstances indicate that there may be impairment. In addition, BWBC performs impairment testing annually for intangible assets that are not yet available for use. Management judgment is involved in determining if there are circumstances indicating that testing for impairment is required, and in determining the grouping of assets to identify their Cash Generating Units (CGU) for the purpose of impairment testing.

BWBC assesses impairment by comparing the recoverable amount of a long-lived asset, CGU or CGU group to its carrying value. The recoverable amount is defined as the higher of: i) value in use, or ii) fair value less cost to sell. The determination of the recoverable amount involves Management judgment and estimation.

The recoverable amount involves significant estimates and assumptions, including those with respect to future cash inflows and outflows, discount rates and asset lives. These estimates and assumptions could affect BWBC's future results, if the current estimates of future performance and fair values change. These determinations will affect the amount of amortization recognized in future periods.

Employee Benefit Plans
The cost of other post-employment benefits and other long-term employee benefits earned by employees is actuarially determined using the projected unit credit method prorated on service and Management's best estimate of retirement ages of employees, and mortality rates, as well as expected health care costs for other post-employment benefits only. Discount rates used in actuarial calculations are based on long-term interest rates and can have a material effect on the employee benefit liabilities. Management employs external experts to advise BWBC when deciding upon the appropriate estimates to use to value employee benefit plan obligations and expenses. To the extent that these estimates differ from those realized employee benefit liabilities and other comprehensive income will be affected in future periods.

Leases
BWBC is party to many leasing arrangements, which requires Management to determine whether the lease is a finance or operating lease, by assessing if substantially all of the risks and rewards of ownership have passed to the lessee. A lease is classified as a finance lease whenever the terms of the lease transfer substantially all of the risks and rewards of ownership of the asset to the lessee. All other leases are classified as operating leases. The most significant judgment, in determining whether the lease transfers substantially all of the risks and rewards of ownership, is whether renewal options are reasonably assured to be exercised at the inception of the lease. BWBC considers both the minimum lease payment as well as the contingent rent, in order to determine whether the renewal options are reasonably assured to be exercised at the inception of the lease. In Management's judgment, all BWBC leases are considered to be operating leases.

3. Significant Accounting Policies

a) ***Financial Instruments***
Financial assets or liabilities are measured at fair value on initial recognition, including transaction costs. The measurement of financial instruments in subsequent periods depends on their classification.

The classification of BWBC's financial instruments is presented in the following table:

Category	*Financial Instruments*
Financial assets held-to-maturity	Investments Restricted funds
Loans and receivables	Trade and other receivables
Other financial liabilities	Trade and other payables Holdbacks payable Bank loan payable Bonds payable

Financial assets held-to-maturity are measured at amortized cost. Interest is recognized using the effective interest rate method and recognized in net income. Investments are classified as non-current assets, except for those with maturities that are less than 12 months from the end of the reporting period, which are classified as current assets. Restricted funds are classified as non-current in accordance with the timing of their intended use.

Assets classified as loans and receivables are recorded at amortized cost using the effective interest rate method.

Other financial liabilities are measured at amortized cost using the effective interest method.

b) ***Impairment of Assets***

Financial Assets

Assessment is made at the end of each reporting period whether there is objective evidence that a financial asset or group of financial assets is impaired. A financial asset or a group of financial assets is impaired and impairment losses are incurred only if there is objective evidence of impairment as a result of one or more events that occurred after the initial recognition of the asset (a 'loss event') and that loss event (or events) has an impact on the estimated future cash flows of the financial asset or group of financial assets that can be reliably estimated.

For financial assets measured at amortized cost, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows discounted at the financial asset's original effective interest rate. The asset's carrying amount is reduced and the amount of the loss is recognized in net income.

If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognized (such as an improvement in the debtor's credit rating), the reversal of the previously recognized impairment loss is recognized in net income.

Non-Financial Assets

Assets that are subject to depreciation are reviewed at each reporting date to determine whether there is an indication of impairment. If any such indication exists, the entity shall estimate the recoverable amount of the asset. An impairment loss is recognized for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell and value in use. For the purposes of assessing impairment, assets are grouped into the smallest group of assets that generate cash inflows that are largely independent of the cash inflows from other assets or groups of assets (cash generating units). Non-financial assets that suffered impairment are reviewed for possible reversal of the impairment at each reporting date.

c) ***Property, Plant, Equipment, Intangible Assets and Investment Properties***

Property, plant and equipment, intangible assets, and investment properties are presented on the Statement of Financial Position as cost less accumulated depreciation and accumulated impairment losses. Historical cost includes expenditures that are directly attributable to the acquisition or the construction of the items.

As lessor, when assets are leased out under an operating lease, the asset is included in the statement of financial position within property, plant and equipment and investment properties based on their primary use.

Subsequent costs are included in the asset's carrying amount or recognized as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to BWBC and the cost of the item can be measured reliably. Repairs and maintenance are charged to the Statement of Comprehensive Income (Loss) during the financial period in which they occurred.

Land is not depreciated. Depreciation on other assets is calculated using the methods and estimated useful lives below. Depreciation rates based on the estimated useful life of an asset are as follows:

Bridges and Truck Ramp	Straight line 50-75 years
Buildings	Straight line 5-70 years 5%-20% diminishing balance basis
Equipment	Straight line 5-10 years 10%-20% diminishing balance basis
Property improvements	10%-20% diminishing balance basis
Vehicles and construction equipment	20% diminishing balance basis
Intangible assets	Straight line 5 years
Investment properties	5-70 years straight-line 5%-20% diminishing balance basis

Residual values and useful lives of property, plant and equipment are reviewed, and adjusted if appropriate, at the end of each reporting period, or more often if events or circumstances dictate.

i) Property, Plant, and Equipment

Buildings

Ten buildings and all of the old booths that were not built in BWBC's latest phase of the master capital plan have been identified for demolition in accordance with the master capital plan. Depreciation has been accelerated to depreciate the remaining net book value over the period of time through to the planned date of demolition.

Residential Buildings

Included in buildings are residential properties held by BWBC for future land development. No depreciation on residential buildings is recorded. The total acquisition cost of the residential buildings will be transferred to the land account when these buildings are demolished.

Construction in Process

Construction in process is not depreciated. When projects are significantly completed and available for use, the costs are transferred to the appropriate asset account and depreciation is initiated.

Borrowing Costs

Borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, which are assets that necessarily take a substantial period of time to get ready for their intended use or sale, are added to the cost of those assets, until such time as the assets are substantially ready for their intended use or sale. BWBC's definition of a qualifying asset is any asset that costs over $1 million and takes over a year to be substantially ready for intended use or sale.

When general borrowings are incurred for the development of a qualifying asset, the capitalization rate applied to the resulting figure is the weighted average of the borrowing rates incurred.

ii) Intangible Assets

The costs of purchases of computer software that meet the definition of intangible assets and that are separable from an item of related hardware are capitalized separately.

iii) Investment Properties

Investment properties are properties held to earn rental income. Investment properties are leased to tenants such as travel and tourism, commercial customs brokers, a private coffee shop, and a duty free shop.

d) Revenue Recognition

Tolls and services revenues are recognized and recorded at the time the tolls are collected when the vehicles pass through the toll lanes. Payments received in U.S. dollars are translated into Canadian dollars based on daily exchange rates.

Facility rentals revenues are recognized and recorded in the periods in which they are earned. These revenues include lease payments received from tenants such as travel and tourism, commercial custom brokers, private coffee shops, and a duty free store.

Currency exchange department revenues are recorded and recognized at the time the currency exchange transaction is completed. Payments received in U.S. dollars are translated into Canadian dollars based on daily exchange rates.

Interest is recognized using the effective interest rate method and recorded in the period in which it is earned. The primary component of revenue in this category is bond interest.

Deferred revenues represent tolls paid in advance by passenger vehicle users and commercial trucking companies. Revenue is recognized at the time the vehicles pass through the toll lanes. Payments received in U.S. dollars are translated into Canadian dollars based on daily exchange rates. Deferred revenues also represent a prepaid operating lease for a commercial tenant to expand its operations. Revenue is recognized over the life of the lease.

e) Foreign Currency Translation

Foreign currency accounts are translated to Canadian dollars as follows:
At the transaction date, each asset, liability, revenue or expense is translated through the use of the exchange rate in effect at that date. At the year-end date, monetary assets and liabilities denominated in a foreign currency are translated into Canadian dollars by using the exchange rate in effect at that date and the resulting foreign exchange gains and losses are included in Tolls and services in the Statement of Comprehensive Income (Loss) in the current period.

f) Employee Benefits

i) Post-employment defined benefits

BWBC provides post-employment benefits including health care, dental care, employee assistance, and life insurance to eligible employees and their dependents upon meeting certain requirements. The obligation and the cost of these benefits are determined on an actuarial basis using the projected unit credit method prorated on service and Management's best estimate assumptions. The discount rate used to determine the accrued benefit obligation is based on market rates for non-current high quality bonds. The measurement date is August 31.

Current service cost and interest cost are presented in salaries, wages and benefits expense. Actuarial gains and losses are recognized in full in the period in which they occur, in other comprehensive income without recycling to the statement of comprehensive income (loss) in subsequent periods.

These benefits are not pre-funded, resulting in a deficit equal to the accrued liability benefit obligation.

Past service costs associated with post-employment benefits are recognized as an expense at the earlier of when the plan amendment or curtailment occurs, or when the entity recognises related restructuring costs or termination benefits.

ii) Post-employment defined contribution

BWBC also provides defined contribution pension benefits to its employees. BWBC's contributions reflect the full benefit cost of the employer and they are charged to operations during the year in which the services are rendered.

iii) Other long-term employee benefits

BWBC provides service awards to employees with a long history of commitment, dedication and exceptional service and has been with the organization for a predetermined period of time. These service awards are a fixed dollar value provided to the employee every five years. The obligation and the cost of these benefits are determined on an actuarial basis using the projected unit credit method prorated on service and Management's best estimate assumptions. The discount rate used to determine the accrued benefit obligation is based on market rates for non-current high quality bonds. The measurement date is August 31.

Current service cost, interest cost and past service costs are presented in salaries, wages and benefits expense. Actuarial gains and losses are recognized in full in the period in which they occur and are also recorded in salaries, wages and benefits expense.

Past service costs associated with post-employment benefits are recognized as an expense at the earlier of when the plan amendment or curtailment occurs, or when the entity recognises related restructuring costs or termination benefits.

These benefits are not pre-funded, resulting in a deficit equal to the accrued liability benefit obligation.

g) Federal, Provincial and Municipal Government Assistance

Federal, provincial and municipal government assistance is recorded as a reduction of the cost of the asset acquired when there is a reasonable assurance that the requirements for the approved grants are met.

h) Contingencies and Provisions

In the normal course of its operations, BWBC becomes involved in various legal actions. Some of the potential liabilities may become actual liabilities when one or more future events occur or fail to occur. To the extent that the future event is probable, and a reasonable estimate of the loss can be made, an estimated liability is accrued and an expense recorded in BWBC's financial statements otherwise the information is disclosed as a contingent liability, unless the likelihood of any outflow in settlement is remote.

i) Accounting Standards Adopted during the year

During the year BWBC has adopted the following standards which are applicable for fiscal years beginning on or after January 1, 2013.

Fair Value Measurement

BWBC adopted IFRS 13 *Fair Value Measurement* on a prospective basis. IFRS 13 replaces the fair value measurement guidance contained in individual IFRSs with a single source of fair value measurement guidance. The standard also establishes a framework for measuring fair value and sets out disclosure requirements for fair value measurements. The adoption of IFRS 13 did not have a material impact on the fair value measurements carried out by BWBC. Additional disclosures required as a result of the adoption of IFRS 13 are included in Notes 5, 10, 11 and 16.

Presentation of Financial Statements

BWBC adopted amendments to IAS 1 *Presentation of Financial Statements* on a retrospective basis. The amendment requires that an entity present separately the items of other comprehensive income that may be reclassified to profit or loss in the future from those that would not be reclassified to profit or loss. Additional disclosures required as a result of the adoption of IAS 1 are presented in the statement of comprehensive income (loss).

Employee Benefits

BWBC adopted the revised IAS 19 *Employee Benefits* on a retrospective basis with restatement with the exception of the sensitivity analysis for significant assumptions which is applied on a prospective basis. The impact of the adoption of revised IAS 19 is further explained in Note 19 and the required additional disclosures are included in Note 8. The standard also has other amendments clarifying the timing of recognition of termination benefits, the adoption of which had no impact on BWBC.

j) Accounting Standards Issued but not yet Effective

At the date of authorization of these financial statements, certain new standards, amendments and interpretations to existing standards have been published but are not yet effective, and have not been adopted early by BWBC. Management anticipates that all of the pronouncements will be adopted in the BWBC's accounting policies for the first period beginning after the effective date of the pronouncement. Certain other new standards and interpretations have been issued but are not expected to have a material impact on BWBC's financial statements. Information on new standards, amendments and interpretations not previously discussed that are expected to be relevant to BWBC's financial statements is provided below.

Amendments to IAS 32, Financial Instruments: Presentation

The amendments clarify presentation requirements related to offsetting of financial assets and financial liabilities. This standard is required to be applied for periods beginning on or after January 1, 2014. BWBC has assessed the impact of the amended standard and has concluded that there is no significant impact to the financial statement as a result of adopting the amendments.

Amendments to IAS 36, Impairment of Assets

These modifications include limited scope amendments to disclosure requirements in IAS 36. This standard is required to be applied for periods beginning on or after January 1, 2014. BWBC has assessed the impact of the amended standard and has concluded that there is no significant impact to the financial statement as a result of adopting the amendments.

IFRS 9 Financial Instruments

IFRS 9 was issued to deal with classification and measurement requirements for financial assets and financial liabilities. BWBC is still assessing the impact of the adoption of this standard on its financial statements. The standard is required to be applied for periods beginning on or after January 1, 2018.

IFRS 15 Revenue from Contracts with Customers

The objective of IFRS 15 is to establish the principles that an entity shall apply to report useful information to users of financial statements about the nature, amount, timing, and uncertainty of revenue and cash flows arising from a contract with a customer. BWBC is still assessing the impact of the adoption of this standard on its financial statements. This standard is required to be applied for periods beginning on or after 1 January 2017. Earlier application is permitted.

4. Cash and Investments

a) Cash

Cash includes $13,180,354 (2013 - $11,996,067) of cash on hand in bank accounts as well as a money market account of $2,501,925 (2013 – nil).

b) Investments

Investments consist of GICs in which the fair value of the investments is quoted prices (unadjusted) in active markets.

	2014	2013
	$	$
Provincial Bond Carrying Amount	-	1,219,993
GIC Carrying Amount	1,263,394	-
	1,263,394	1,219,993
Fair Value	1,265,984	1,247,241

c) ***Major Maintenance Fund***

The money market and investments are held in the Major Maintenance Fund. This fund holds unrestricted funds for capital expenditures and major maintenance. During the year, the Board of Directors approved the restriction of $2.5 million to the Major Maintenance Fund in anticipation of planned maintenance projects in the next two years. The book value of the Major Maintenance Fund is $3,765,319 (2013 - $1,219,993) and the fair value is $3,767,909 (2013 - $1,247,241).

5. Property, Plant, Equipment, Intangible Assets and Investment Property

a) Property, Plant and Equipment

	August 31, 2014							
	Land	Bridges & Truck Ramp	Buildings	Equipment	Construction in process	Property improvements	Vehicles and construction equipment	Total
Cost	$	$	$	$	$	$	$	$
Balance, beginning of year	8,105,614	138,841,034	69,749,802	8,286,570	1,189,051	12,934,785	1,784,161	240,891,017
Additions	167,714	—	4,130	244,154	2,602,353	14,087	366,630	3,399,068
Disposals and write offs	—	—	(186,835)	(152,074)	—	(4,629)	(190,315)	(533,853)
Transfers	—	—	205,993	30,343	(277,673)	41,337	—	—
Balance, end of year	8,273,328	138,841,034	69,773,090	8,408,993	3,513,731	12,985,580	1,960,476	243,756,232
Accumulated depreciation								
Balance, beginning of year	—	8,492,154	8,700,495	5,259,211	—	9,161,365	1,432,671	33,045,896
Depreciation expense	—	2,863,216	2,409,216	408,435	—	778,253	101,477	6,560,597
Disposals and write offs	—	—	(186,835)	(119,734)	—	(3,475)	(186,690)	(496,734)
Balance, end of year	—	11,355,370	10,922,876	5,547,912	—	9,936,143	1,347,458	39,109,759
Net book value, end of year	8,273,328	127,485,664	58,850,214	2,861,081	3,513,731	3,049,438	613,018	204,646,473

	August 31, 2013							
	Land	Bridges & Truck Ramp	Buildings	Equipment	Construction in process	Property improvements	Vehicles and construction equipment	Total
Cost	$	$	$	$	$	$	$	$
Balance, beginning of year	8,105,614	136,091,230	69,203,050	6,960,687	5,198,934	12,919,632	1,677,486	240,156,633
Additions		221,379	11,577	369,138	111,052	15,153	106,675	834,974
Disposals	—	—	—	(100,590)	—	—		(100,590)
Transfers	—	2,528,425	535,175	1,057,335	(4,120,935)	—	—	—
Balance, end of year	8,105,614	138,841,034	69,749,802	8,286,570	1,189,051	12,934,785	1,784,161	240,891,017
Accumulated depreciation								
Balance, beginning of year	—	5,644,553	5,743,869	4,926,551	—	8,227,279	1,368,689	25,910,941
Depreciation expense	—	2,847,601	2,956,626	427,119	—	934,086	63,982	7,229,414
Disposals	—	—	—	(94,459)	—	—		(94,459)
Balance, end of year	—	8,492,154	8,700,495	5,259,211	—	9,161,365	1,432,671	33,045,896
Net book value, end of year	8,105,614	130,348,880	61,049,307	3,027,359	1,189,051	3,773,420	351,490	207,845,121

During the year, the estimated useful lives of certain buildings were adjusted from 1-6 years to 10 years to reflect their expected decommissioning dates. The change in accounting estimate was accounted for on a prospective basis and decreased the current year depreciation expense by $204,016. From 2014/15 to 2023/24, the change in the depreciation expense over this period ranges from a decrease of $134,650, to an increase of $124,295. The net impact from 2014/15 to 2023/24 is an increase of $204,016.

b) Intangible Assets and Investment Properties

	2014		2013	
	Intangible Assets	Investment Properties	Intangible Assets	Investment Properties
	$	$	$	$
Cost				
Balance, beginning of year	**997,324**	**17,870,983**	990,479	17,742,231
Additions	**16,018**	**1,849,167**	6,845	128,752
Disposals	**—**	**—**	—	—
Transfers	**—**	**—**	—	—
Balance, end of year	**1,013,342**	**19,720,150**	997,324	17,870,983
Accumulated depreciation				
Balance, beginning of year	**951,778**	**2,440,273**	881,776	1,686,661
Depreciation expense	**22,974**	**601,230**	70,002	753,612
Disposals	**—**	**—**	—	—
Balance, end of year	**974,752**	**3,041,503**	951,778	2,440,273
Net book value, end of year	**38,590**	**16,678,647**	45,546	15,430,710

Investment properties comprise commercial properties that are leased to third parties. Additions to investment properties relate to subsequent expenditures on the existing Duty Free Building.

Fair value of the investment property has been determined based on a valuation performed by METRIX Realty Group, an independent valuator who is a member of the Appraisal Institute of Canada and have appropriate qualifications and recent experience in the valuation of properties in the relevant location. The fair value was determined by METRIX Reality Group as at September 1, 2010 and has been extrapolated to August 31, 2014 using the Consumer Price Index and has been adjusted for obsolescence. The value of the property has not been determined on transactions observable in the market because of the nature of the property and the lack of comparable data. The total fair value of the investment property has been determined to be $20,161,445 (August 31, 2013 - $18,839,337). The fair value of the investment property was determined by estimating the replacement cost of the building while deducting the accrued depreciation. The inputs used to determine the fair value include the type of building, age, condition and region that the building is in. This is adjusted by items attached to the building including the HVAC and the sprinkler system.

Rental income for 2014 amounts to $2,595,503 (2013 - $2,632,236) included within 'facility rentals'. Contingent rent of $1,354,785 (2013 - $1,421,101) was also recognized. Direct operating expenses of $89,024 (2013 - $80,836) was reported within general and administrative and maintenance expenses. No investment properties were vacant at August 31, 2014, or August 31, 2013.

During the year, the estimated useful lives of certain buildings were adjusted from 6 months to 10 years to reflect their expected decommissioning dates. The change in accounting estimate was accounted for on a prospective basis and decreased the current year depreciation expense by $46,640. From 2014/15 to 2023/24, the change in the depreciation expense over this period ranges from a increase of $2,455 to $4,909. The net impact from 2014/15 to 2023/24 is an increase of $46,640.

6. Restricted Funds

Restricted funds consist of certain funds, the use of which is directed by the Master Trust Indenture (the "Indenture") offering document and which consist of the Debt Service Reserve Fund and the Operating and Maintenance Contingency Fund. These funds are invested in cash or eligible investments with 0 to 3 years to maturity as follows:

	2014	2013
	$	$
Debt Service Reserve Fund (a)		
Cash	22	22
Bonds	-	1,236,592
GICs	3,709,450	2,399,116
	3,709,472	3,635,730
Operating and Maintenance Contingency Fund (b)		
Bonds	-	344,964
GICs	2,796,939	2,392,968
	2,796,939	2,737,932
Total Restricted Funds (a+b)	6,506,411	6,373,662
Fair Value	6,498,415	6,393,985

The fair value of the investments is quoted prices (unadjusted) in active markets. At maturity of the bonds payable, the restricted funds will no longer be required.

a) ***Debt Service Reserve Fund***
On the issuance of the bonds, BWBC established the Debt Service Reserve Fund in the amount of $4.5 million. In accordance with the terms of the Indenture, the bond covenant requires that the Debt Service Reserve Fund be maintained at the level according to the following:

Gross Debt Service Coverage Ratio	Debt Service Reserve Fund amount
> 3.00	No amount
> 2.00 and < 3.00	25% of the Debt Service Amount
< 2.00	50% of the Debt Service Amount

Gross Debt Service Coverage Ratio means, on any date, the sum of free cash flow for a twelve month period and the revenue account balance (cash plus all investments plus credit facilities) divided by the sum of the net interest amount and the total principal reduction amount for the twelve month period.

Debt Service Amount means, on any date, the sum of the projected net interest amount and the projected total principal reduction amount for the twelve month period commencing on the first day of the month.

As at August 31, 2014, the Gross Debt Service Coverage Ratio is 5.20 (August 31, 2013 – 4.75).

b) ***Operating and Maintenance Contingency Fund***
On the issuance of the bonds, BWBC established the Operating and Maintenance Contingency Fund in the amount of $2.0 million. In accordance with the terms of the Indenture, the fund must be at least equal to twenty-five percent (25%) of the Operating and Maintenance expenses incurred by BWBC. Operating and Maintenance expenses do not include

amortization or the interest on any borrowings. As at August 31, 2014, the required minimum balance is established at $2,369,833 (August 31, 2013 - $2,018,089).

7. Deferred Revenue

Deferred revenue represents tolls paid in advance by both individuals and commercial customers and prepaid facility rentals. Balances of tolls paid in advance for passenger and commercial vehicles are drawn down with each use of the bridge.

	2014	2013
	$	$
Passenger Vehicles–Tokens	1,015,130	1,107,597
Commercial Vehicles	1,227,585	1,159,587
Current prepaid facility rentals	252,286	126,583
Non-current prepaid facility rentals	1,933,931	-
	4,428,932	2,393,767

8. Employee Benefits

a) *Pension Benefit*

BWBC has contracted an outside life insurance firm to operate and administer an employee pension plan. Employees of BWBC may voluntarily join the pension plan, subject to eligibility requirements. The pension plan, which is a defined-contribution pension plan, is funded on a money-purchase basis with members contributing 6.5% of their annual earnings. In accordance with the plan, BWBC is required to contribute an amount equal to the member's required contribution. During the year, BWBC's pension contributions amounted to $194,652 (2013 - $209,119).

b) *Special Termination Benefits*

There were no special termination benefits offered in fiscal 2014 or 2013. There were no remaining liabilities as at August 31, 2014 ($36,127 as at August 31, 2013).

c) Other Benefits

Other than the pension plan, BWBC provides post-employment benefits to its eligible employees through health, dental, life insurance and an employee assistance program as well as other long-term benefits which consist of service awards. Benefit costs related to current service are charged to income as services are rendered. The risks associated with these benefits include changes in discount rates, mortality rates, per capita claim costs and general inflation that can cause volatility in BWBC's financial results. The actuarial valuation was performed as at August 31, 2014.

The following table sets forth the status of the post-employment non-pension related benefit plan:

	2014		2013 (Restated - See note 19)
	$		$
Defined benefit obligation	Post-employment	Other long-term	
Balance, beginning of year	5,514,691		6,030,689
Current service cost	204,585		316,227
Past service cost	-	85,308	-
Interest cost	272,175		258,198
Actuarial (gain) loss - Other	(24,841)		(480,754)
Actuarial (gain) loss - demographic assumptions	51,600		290,200
Actuarial (gain) loss - financial assumptions	608,100		(806,800)
Benefits paid	(86,541)		(93,069)
Balance, end of year	6,539,769	85,308	5,514,691

Changes in Other Comprehensive Income during the year:

	2014	2013
	$	$
Actuarial (losses) gains arising during the year	(634,859)	997,354
Other comprehensive income	(634,859)	997,354

Post-employment expense recognized in net income during the year is as follows:

	2014		2013
	$		$
	Post-employment	Other long-term	
Current service costs	204,585	-	316,227
Past service costs	-	85,308	-
Interest cost	272,175	-	258,198
Net post-employment expense recognized in year	476,760	85,308	574,425

The significant actuarial assumptions adopted in measuring BWBC's accrued benefit obligations and net benefit plan expense are as follows:

	2014	2013
Weighted average assumptions as at August 31:		
Discount Rate, accrued benefit obligation	4.00%	4.80%
Discount Rate, benefit cost	4.80%	4.10%
Estimated per capita claims costs escalation rates:		
General inflation	2.50%	2.50%
Dental and vision care	4.50%	4.50%
Employee assistance program	2.50%	2.50%
Mortality rates	CPM Public Table generational improvements using CPM Scale B	UP-1994 Mortality table with generational projections using Scale AA

The assumed health care inflation rate as of August 31, 2014 is 8.00% per annum decreasing linearly to 4.50% per annum in the 2022/2023 fiscal year, (August 31, 2013 - 8%).

Expected benefits to be paid regarding the post-employment benefit plans for the year end August 31, 2014 are $102,557.

The average expected maturity of the plan obligation is 22 years (20 years in 2013).

Sensitivity Analysis
BWBC has reviewed the assumptions used in the actuarial calculations and has identified the following assumptions as those that could result in a significant impact on the defined benefit obligation:

	2014
Discount rate - increase of 1 %	(1,207,861)
Discount rate - decrease of 1 %	1,602,618
Future mortality - increase of 1 year age	(284,226)
Future mortality - decrease of 1 year age	290,520
Trend rates - increase of 1 %	1,439,387
Trend rates - decrease of 1 %	(1,110,607)
Current service cost and interest cost - increase of 1 %	123,865
Current service cost and interest cost - decrease of 1 %	(93,506)

The sensitivity analysis above may not be representative of the actual change in the defined benefit obligation as it is unlikely that a change in assumptions would occur in isolation of one another, as some of the assumptions may be correlated.

9. Credit Facilities

Pursuant to the *Blue Water Bridge Authority Act*, the maximum amount that BWBC can borrow is $125 million with Government approval. Pursuant to Section 13 of the *Blue Water Bridge Authority Act*, the Government of Canada is not liable for any borrowings by BWBC.

On July 9, 2002 BWBC issued at a face value of $110 million, 6.41% Revenue Bonds, payable semi-annually, Series 2002-1, due July 9, 2027 (note 11).

In addition to the bonds payable, BWBC maintains two separate credit facilities with a Canadian chartered bank in the total amount of $30 million (2013 - $30 million). These facilities were issued by way of a Third Supplemental Indenture in June, 2010, which carries the same security as the full bond issuance.

The first facility is a $15 million line of credit to be used in the event of temporary cash deficiencies resulting from the timing of capital expenditure payments. As per the Minister of Finance's approval of the borrowing plan, this line of credit is not to be used to cover cash shortages resulting from operating losses. Nothing has been drawn on this facility at August 31, 2014 ($0 at August 31, 2013).

In addition, due to the requirement to finance the 2009 federal infrastructure program coupled with the decline in traffic volumes at that time, BWBC was granted permission by the Minister of Finance to put into place a second credit facility for $15 million on a fixed rate, non-current basis with periodic payments of interest and principal not to exceed a maturity of 25 years. BWBC has drawn upon this facility in four tranches (*note 10*).

BWBC has provided the following security for the bonds and the two credit facilities:

i) all assets held in cash, the Debt Service Reserve Fund, the Operating and Maintenance Contingency Fund, and any other Fund or Account including, without limitation, all Permitted Investments and Credit Facilities now or hereafter forming part thereof;

ii) all revenues;

iii) all contracts;

iv) all accounts receivable of the Corporation; and

v) all property, plant, intangible asset, investment properties, equipment, books and records owned by the Corporation, or in which it has an interest and a non-exclusive right to use computer systems to enable the collection of the Revenues, save and except the Bridge itself or the underlying lands and facilities which are fixtures on the lands of BWBC.

10. Loans Payable

	2014		2013	
	Fair Value	Carrying Cost	Fair Value	Carrying Cost
	$	$	$	$
$15 million term facility		13,800,388		14,204,560
$3 million @ 2.83 % locked until July 27, 2014	-		2,822,640	
$4 million @ 3.37 % locked until July 27, 2016	3,659,730		3,770,396	
$4 million @ 3.81% locked until July 27, 2018	3,676,778		3,781,805	
$3 million @ 2.85 % locked until July 27, 2019	2,734,068		-	
$4 million @ 4.42 % locked into July 27, 2021 payable monthly	3,699,295		3,796,824	
	13,769,871	13,800,388	14,171,665	14,204,560
Less current portion	418,726	418,726	404,068	404,068
	13,351,145	13,381,662	13,767,597	13,800,492

A discounted cash flow method, using a factored rate equal to the prevailing market rate of interest for loans having similar terms and conditions, was used to determine the fair value of the loans payable.

Principal and interest payments for the term facility for the next five years and thereafter are as follows:

	Principal	Interest	Total
	$	$	$
2015	418,726	499,169	917,895
2016	433,801	484,094	917,895
2017	450,596	467,299	917,895
2018	466,887	451,008	917,895
2019	484,172	433,723	917,895
Thereafter	11,546,206	3,982,216	15,528,422
	13,800,388	6,317,509	20,117,897

11. Bonds Payable

	2014		2013	
	Fair Value	Carrying Cost	Fair Value	Carrying Cost
	$	$	$	$
Series 2002-1 bonds maturing July 9, 2027 payable semi-annually on January 9 and July 9	93,123,251	77,023,781	94,906,897	80,693,106
	93,123,251	77,023,781	94,906,897	80,693,106
Less current portion	3,913,155	3,913,155	3,669,326	3,669,326
	89,210,096	73,110,626	91,237,571	77,023,780

BWBC maintains a covenant with the Trustee and Bondholders that so long as there is any amount payable under the Master Trust Indenture, or any Bonds outstanding or any obligations under the indenture:

i) The principal and interest will be duly paid on the due dates.

ii) Insurance will be maintained in such types and amounts in accordance with sound business practices and standards in the industry.

iii) BWBC shall maintain its corporate existence pursuant to the *Blue Water Bridge Authority Act* and maintain its existence as a parent Crown Corporation under the *Financial Administration Act* subject to its right to reorganize, merge or amalgamate in accordance with the Master Trust Indenture.

iv) Except for borrowings arising as a result of movements in the termination values of swap agreements and any purchase money obligations not exceeding $2 million in the aggregate at any time and BWBC shall not create, incur, assume or otherwise become liable for any additional indebtedness unless it is pursuant to a supplemental Indenture. As at August 31, 2014 BWBC has no active swap agreement.

v) The aggregate of all borrowings, subordinated debt and purchase money obligations does not exceed any limitations on the amount of borrowings outstanding imposed upon BWBC pursuant to the *Blue Water Bridge Authority Act.*

vi) Toll Rate Covenant – BWBC will take all lawful measures to fix and establish toll rates and other charges so that the Gross Debt Service Coverage Ratio will be equal to or greater than 1.25 with respect to each Fiscal Year and that the projected Debt Service Ratio is equal to or greater than 1.00 with respect to each Fiscal Year. If the ratios do not meet these requirements, BWBC shall take all steps permitted under the *Blue Water Bridge Authority Act* to increase toll rates as may

be necessary to achieve such ratios in the next succeeding Fiscal Year. As at August 31, 2014, the Gross Debt Service Coverage Ratio (as defined in note 6) is 5.20 (2013 – 4.75) and the Debt Service Ratio is 1.82 (2013 - 1.75).

A discounted cash flow method, using a factored rate equal to the prevailing market rate of interest for bonds having similar terms and conditions, was used to determine the fair value of the bonds. The factored price used to determine the fair value of the bonds is based on the market price of the bonds multiplied by the percentage of remaining principal to the beginning principal of the bonds. The factored price at August 31, 2014 was 84.001% (August 31, 2013– 85.526%).

Financing costs of $1,298,699 related to the issuance of the bonds have been included in non-current loans payable. As interest expense and financing costs are recognized they increase the recorded carrying value of the related non-current loans payable until such time as the liability recorded is equal to the bonds' face value of $110 million, calculated based on the effective interest rate calculation.

Principal and interest payments for the bonds for the next five years and thereafter are as follows:

	Principal	Interest	Total
	$	$	$
2015	3,913,155	4,973,022	8,886,177
2016	4,173,186	4,712,991	8,886,177
2017	4,450,496	4,435,681	8,886,177
2018	4,746,234	4,139,943	8,886,177
2019	5,061,624	3,824,553	8,886,177
Thereafter	54,679,086	16,410,335	71,089,421
	77,023,781	38,496,525	115,520,306

12. Facility Rentals

BWBC has entered into contracts with thirteen customs brokers and one logistics company who rent space in the Blue Water Bridge Corporate Centre. BWBC also entered into a long-term operating lease with The Blue Water Bridge Duty Free Shop Inc. BWBC provides the building while the Duty Free Shop Inc. operates the commercial facility. BWBC receives a fixed rent per month and contingent revenues based on a percentage of sales. The total amount of contingent rent recognized during the current fiscal year was $1,354,785 (August 31, 2013 - $1,421,101). The Duty Free Shop Inc. has also paid for the expansion of its building. This payment is recognized as deferred revenue until the expansion is complete. Upon completion, the building proceeds will be recognized as revenue, amortizing over the life of the lease.

Future minimum rentals receivable under non-cancellable operating leases as at August 31 are as follows:

	2014	2013
	$	$
Within one year	1,159,919	1,168,792
After one year, but not more than five years	2,120,786	2,116,167
More than five years	1,484,565	2,332,889
	4,765,270	5,617,848

13. Commitments

Special project contracts have been awarded as at August 31, 2014 for the purchase of Property, Plant and Equipment with an outstanding commitment of $ 1,254,112 ($63,757 at August 31, 2013).

Maintenance and other awarded contracts have an outstanding commitment of $909,550 at August 31, 2014 ($1,229,913 at August 31, 2013).

Total commitments are as follows:

	2014	2013
	$	$
Within one year	1,657,982	529,308
After one year but not more than five years	505,680	764,362
More than five years	—	—
	2,163,662	1,293,670

14. Contingencies and Provisions

In the normal course of its operations, BWBC becomes involved in various legal actions. Some of these potential liabilities may become actual liabilities when one or more future events occur or fail to occur. To the extent that the future event is probable, and a reasonable estimate of the obligation can be made, an estimated liability is accrued and an expense recorded in BWBC's financial statements. Subsequent to year end, the case before the Public Sector Integrity Commission Tribunal involving BWBC and three former employees was withdrawn by the Public Sector Integrity Commissioner. The parties reached a settlement which has been provided for in these financial statements. The terms of the settlement expressly prohibit disclosure of the settlement amounts.

Beyond year end, BWBC entered into an agreement with one tenant to have the tenant reimburse certain utility bills to BWBC along with demolition costs for a building. These contingent assets will be accounted for in Fiscal 2014-2015 at $68,779.

15. Capital Management

BWBC defines its capital structure as its retained earnings. BWBC is governed by the *Financial Administration Act* and is not subject to any external capital restriction.

BWBC is not authorized to modify its financial structure without pre-approval by the Government. BWBC must obtain authorization from the Government to negotiate any borrowings. BWBC manages its capital structure and makes adjustments to it, in light of changes in economic conditions. No changes were made in the objectives, policies or processes during the years ended August 31, 2014 and August 31, 2013.

16. Financial Instruments

a) Financial Risk Management

I) Credit risk

Credit risk is the risk of financial loss to BWBC associated with the counterparty's failure to fulfill its financial obligations and arises principally from BWBC's trade and other receivables and its investments in GIC's. BWBC is subject to credit risk on cash, money markets, investments and trade and other receivables. BWBC manages this risk by closely monitoring the issuance and collection of credit to commercial clients. Generally, the carrying amount reported on BWBC's statement of financial position for its financial assets exposed to credit risk represents the maximum amount exposed to credit risk. The credit risk is not significant for BWBC.

The credit risk associated with cash and current instruments is reduced substantially by ensuring that cash surpluses are invested in highly liquid investments. It is BWBC's policy to invest in low-risk instruments owned by the Government of Canada, a Canadian province or one of five major Canadian chartered banks. These financial assets are invested in guaranteed investment certificates or government bonds. Management believes the risk of loss is remote.

The credit risk associated with trade and other receivables is minimized since a large portion of the amount is owed by provincial or federal government agencies, the state of Michigan and our commercial tenants.

BWBC is subject to credit risk on the value of its trade and other receivables $499,618 at August 31, 2014 ($674,686 at August 31, 2013). BWBC is also subject to credit risk in the value of its investments, money market and restricted funds $10,271,730 at August 31, 2014 ($7,593,655 at August 31, 2013). BWBC has determined that the risk is not significant.

The maturity analysis for trade and other receivables as at August 31, 2014 is as follows:

	Total	Less than 3 months	3 to 6 months	6 months to 1 year	Greater than 1 year
	$	$	$	$	$
Rents Receivable	237,683	237,683	—	—	—
MDOT Receivable	2,936	2,936	—	—	—
Duty Free Receivable (non-rent)	94,485	44,190	50,295	—	—
Other	165,368	162,677	333	2,358	—
Allowance for Doubtful Accounts	(854)	—	(766)	(88)	—
	499,618	447,486	49,862	2,270	—

The maturity analysis for trade and other receivables as at August 31, 2013 is as follows:

	Total	Less than 3 months	3 to 6 months	6 months to 1 year	Greater than 1 year
	$	$	$	$	$
Rents Receivable	243,840	243,840	—	—	—
MDOT Receivable	141,672	141,672	—	—	—
Duty Free Receivable (non-rent)	168,085	115,458	—	52,627	—
Other	125,228	85,978	9,890	27,794	1,566
Allowance for Doubtful Accounts	(4,139)	(4,139)	—	—	—
	674,686	582,809	9,890	80,421	1,566

ii) Liquidity/Solvency Risk

Liquidity/Solvency risk is the risk that funds will not be available to BWBC to honour its cash obligations as they arise.

BWBC liabilities as at August 31, 2014 are:

	Total	Less than 3 months	3 to 6 months	6 months to 1 year	Greater than 1 year
	$	$	$	$	$
Trade payables	568,143	559,568	8,575	—	—
Accrued charges	628,465	628,465	—	—	—
Accrued interest on bonds	716,264	—	716,264	—	—
Accrued salaries and benefits	400,230	400,230	—	—	—
Holdbacks payable	213,094	213,094	—	—	—
Long-term debt payable	135,638,203	229,474	4,672,563	4,902,037	125,834,129
	138,164,399	2,030,831	5,397,402	4,902,037	125,834,129

BWBC liabilities as at August 31, 2013 are:

	Total	Less than 3 months	3 to 6 months	6 months to 1 year	Greater than 1 year
	$	$	$	$	$
Trade payables	833,018	798,809	—	—	34,209
Accrued charges	74,220	10,912	—	—	63,308
Accrued interest on bonds	741,393	—	741,393	—	—
Accrued salaries and benefits	446,159	446,159	—	—	—
Holdbacks payable	—	—	—	—	—
Long-term debt payable	$ 145,434,402	229,386	4,672,475	4,901,891	135,630,650
	147,529,192	1,485,266	5,413,868	4,901,891	135,728,167

Additional disclosure about BWBC's credit facility, loans payable and bonds payable can be found in notes 9, 10 and 11 respectively. It is possible that future financial results and required federal infrastructure priorities may impinge or strain our ability to satisfy existing bond covenants and require the utilization of the existing line of credit or the utilization of additional non-current loans payable. However, BWBC manages this risk by maintaining detailed cash forecasts, as well as long-term operating and strategic plans. The management of liquidity requires a constant monitoring of expected cash inflows and outflows which is achieved through a forecast of BWBC's liquidity position, to ensure adequacy and efficient use of cash resources. In the event that future cash deficiencies are identified, BWBC has the authority through the *Blue Water Bridge Authority Act* (Canada) to fix and charge tolls based on a pre-set formula; negotiate with a chartered bank, and; coordinate financial remediation solutions with Transport Canada.

iii) Market Risk

Market risk is the risk that the fair value of future cash flows of a financial instrument will fluctuate because of changes in market prices, whether those changes are caused by factors specific to the individual financial instrument of its issuer, or factors affecting all similar financial instruments traded in the market.

a) Interest rate risk

BWBC is not subject to interest rate risk and fair value risk as all investments are held to maturity. The interest rate risk and fair value risk are minimal for the bonds payable as BWBC does not redeem the bonds prior to maturity.

b) Foreign exchange risk

A variation in exchange rates from year-to-year would significantly affect toll revenue income. The weakening of the Canadian dollar over the duration of fiscal year 2014 produced an increase in toll revenue income of $352,923 (2013 - $139,626 increase in income). BWBC's bank accounts are held at one Canadian chartered bank. Cash (including on hand) includes US $1,489,031 (2013 - US $3,641,519.) which has been translated to its Canadian equivalent of $1,616,790 (2013 - $3,842,895). For BWBC's USD cash holdings a one per cent change in exchange rate would produce $14,890 gain or loss (2013 - $36,415). The method used to determine the foreign exchange risk is to take BWBC's foreign holdings and calculate a one per cent variation.

c) Fair Value

Assets and liabilities whose fair values are disclosed in the notes to the financial statements are grouped into three levels within the fair value hierarchy. The three levels are defined based on the observability of significant inputs to the measurement at follows:

Level 1 – Quoted prices (unadjusted) in active markets for identical assets or liabilities

Level 2 – Inputs other than quoted prices included within Level 1 that are observable for asset or liability, either directly or indirectly

Level 3 – unobservable inputs for the asset or liability

The following table summarizes the assets and liability held by BWBC in which the fair values are disclosed in the notes to the financial statements:

	2014	2013
Assets		
Investments	**Level 1**	Level 1
Trade and other receivables	**Level 2**	Level 2
Investment properties	**Level 3**	Level 3
Restricted funds	**Level 1**	Level 1
Liabilities		
Trade and other payables	**Level 2**	Level 2
Holdbacks payable	**Level 2**	Level 2
Loans payable	**Level 2**	Level 2
Bonds payable	**Level 2**	Level 2

The carrying amounts of BWBC's trade and other receivables, trade and other payables and holdbacks payable approximate their fair values due to their short term maturity. The fair value of investments, investment properties, restricted funds, loans payable and bonds payables are disclosed in notes 4, 5, 6, 10 and 11 respectively.

17. Related Party Transactions

The Corporation is related in terms of common ownership to all Government of Canada created departments, agencies and Crown corporations. The Corporation enters into transactions with these entities in the normal course of business on trade terms similar to those applied to other individuals and enterprises and these transactions are recorded at fair value. Other than disclosed elsewhere in these Financial Statements (notes 4, 6 and 8), related party transactions are not significant.

In accordance with the terms of the *Blue Water Bridge Authority Act*, BWBC is required to provide space at no charge to both the Canada Border Services Agency and the Canadian Food Inspection Agency.

The remuneration of key executives is determined by the Board of Directors having regard to the performance of individuals and market trends. The compensation of the key executives of the Corporation, represented by the Board of Directors and the Executive Management team, is as follows:

	2014	2013 *(Restated - See note 19)*
	$	$
Short-term employee benefits	**146,151**	429,764
Defined contribution post-employment benefits	**7,838**	24,568
Defined benefit post-employment benefits	**8,083**	15,779
Other long-term benefits	**2,576**	7,603
Termination benefits	**—**	28,344
	164,648	506,058
Defined benefit cost reflected in other comprehensive income	**(23,802)**	13,663

18. Amalgamation Update

On October 22, 2013, the Government of Canada announced a restructuring of its federal bridges as part of its tabling of the government's budget implementation bill, C-4, *Economic Action Plan Act, No. 2*. Through the restructuring, BWBC will be amalgamated with the Federal Bridge Corporation Limited. Subsequent to this year end, additional legislation regarding the

amalgamation, Bill C-43 - Economic Action Plan 2014 Act, No. 2, was introduced in the House and received first reading on October 23, 2014. It is anticipated that the amalgamation will be completed by the end of calendar year 2014.

19. Impact of New Accounting Standards During the Period

Beginning January 1, 2013, BWBC adopted revised IAS 19 Employee Benefits on a retrospective basis with restatement. Under revised IAS 19, BWBC is required recognize actuarial gains or losses and past service costs directly in other comprehensive income and profit and loss, respectively, in the period in which they are incurred. Previously actuarial gains or losses could be amortized using the corridor method and the past service costs were amortized over the average period until the benefits became vested. The impact of the adoption of revised IAS 19 is a net increase in earnings of $295,420 for the year ended August 31, 2013. BWBC has restated its audited financial statements as noted in the table below. Had BWBC continued to implement the previous IAS 19 requirements, the current year's net income would have decreased by $67,041 and other comprehensive income would have been nil.

		Amended IAS 19 effects		
Statement of Financial Position	As previously	Past service	Actuarial	Restated
As at	reported	Costs	Gains	
August 31, 2013	$	$	$	$
Liabilities				
Employee benefits	6,255,022	295,420	(1,035,751)	5,514,691
Equity				
Retained earnings	138,336,254	(295,420)	1,035,751	139,076,585
Statement of Comprehensive Income (loss)				
For the period ended August 31, 2013				
Salaries and benefits	5,920,442	(34,756)		5,885,686
Total expenses	23,305,316	(34,756)		23,270,560
Net income	1,445,753	34,756		1,480,509
Other comprehensive income	-	-	997,354	997,354
Total comprehensive income	1,445,753	34,756	997,354	2,477,863
Statement of Cash Flows				
Net income	1,445,753	34,756		1,480,509
Change in employee benefits	479,985	(34,756)		445,229

Statement of Financial Position As at September 1, 2012	As previously reported	Amended IAS 19 effects Past service Costs	 Actuarial Gains	Restated
	$	$	$	$
Liabilities				
Employee benefits	5,775,037	330,176	(38,397)	6,066,816
Equity				
Retained earnings	136,890,501	(330,176)	38,397	136,598,722

20. Comparative information

Certain comparative figures of the statement of cash flows have been reclassified to conform to the current year presentation.

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